

Audit and Inspection Plan

June 2007



# **Audit and Inspection Plan**

**Northampton Borough Council**

**Audit 2007/2008**

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; and
- 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 to the Council**

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### **Copies of this report**

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## Introduction

- 1 This plan has been developed by the Relationship Manager and the Appointed Auditor, KPMG LLP ('KPMG'). It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As KPMG has not yet completed its audit for 2006/07, the audit planning process for 2007/08, 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

- 4 We 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.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 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.

## CPA and inspection

- 8 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.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as poor.
- 10 We have applied the principles set out in the CPA framework, *CPA – district council framework from 2006*, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Improvements in the Council's performance include:
  - some aspects of performance management; and
  - levels of sickness absence.
- 12 Key areas for improvement in the Council's performance include:
  - political and managerial leadership;
  - Use of Resources, including financial management and monitoring, and value for money;
  - capacity in some key areas such as finance;
  - strategic partnership working; and
  - service quality in particular in housing, planning and benefits.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

**Table 1 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Progress check	To check the Council's progress in key areas following the critical Progress Assessment and Direction of Travel assessment in 2006. A brief summary report will be provided to the Council and other regulators, but will not be published.

## 6 Audit and Inspection Plan | CPA and inspection

<b>Inspection activity</b>	<b>Reason/impact</b>
Direction of travel (DoT) assessment.	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT will be reported in the annual audit and inspection letter.
Streetscene and waste management inspection.	The Council is improving its rates of recycling but volumes of waste collected are high as are the costs of the service.
Progress with housing services improvements.	Progress in the last year will be assessed and reported to the Council.

## Work under the Code of Audit Practice carried out by the Appointed Auditor

### Financial statements

- 14 KPMG will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 KPMG is 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 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 KPMG is also required to review whether the Statement of Internal Control (SIC) has been presented in accordance with relevant requirements, and to report if it does not meet these, or if it is misleading or inconsistent with KPMG's knowledge of the Council.

### Use of resources

#### Value for money conclusion

- 17 The Code requires KPMG to issue a conclusion on whether the Council 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. In arriving at the conclusion KPMG consider a standard set of criteria issued by the Audit Commission.
- 18 In meeting this responsibility, KPMG will seek to place reliance on the Council'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 its work.
- 19 KPMG will also follow up its work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

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

Theme	Description
Financial reporting	<ul style="list-style-type: none"><li>• Preparation of financial statements.</li><li>• External reporting.</li></ul>
Financial management	<ul style="list-style-type: none"><li>• Medium-term financial strategy.</li><li>• Budget monitoring.</li><li>• Asset management.</li></ul>
Financial standing	<ul style="list-style-type: none"><li>• Managing spending within available resources.</li></ul>
Internal control	<ul style="list-style-type: none"><li>• Risk management.</li><li>• System of internal control.</li><li>• Probity and propriety.</li></ul>
Value for money	<ul style="list-style-type: none"><li>• Achieving value for money.</li><li>• Managing and improving value for money.</li></ul>

- 23 KPMG will report to the Council details of the scores and judgements made. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 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 CPA.

## Data quality

- 25 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 - completeness check; and
  - Stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to KPMG's review of the Council's arrangements to secure data quality as required for KPMG's value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot checks to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.



- 27** KPMG's fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on KPMG's assessment of your overall management arrangements at stage 1 KPMG will update its plan accordingly, including any impact on the fee.

## **Best Value Performance Plan**

- 28** KPMG is required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

## Assessing risks

- 29** KPMG is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning its audit work to address areas of risk relevant to KPMG's audit responsibilities and reflecting this in the audit fees. It also means making sure that its work is co-ordinated with the work of other regulators, and that it helps you to progress.
- 30** KPMG's risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- KPMG's cumulative knowledge of the Council;
  - guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 31** At the time of writing this plan, KPMG has not completed its audit of the Council's 2006/07 accounts. The findings of this audit will be a key factor in the planning for 2007/08, so KPMG will revisit its accounts audit risk assessment after giving the 2006/07 opinion. However, as a minimum, KPMG will need to consider the Authority's approach to the changes in the 2007 SORP. The consultation on the new SORP closed on 14 February and, whilst KPMG is still awaiting the final version of the document, likely changes include:
- the requirement to establish a UK GAAP-compliant revaluation reserve, with a particular challenge being the need to calculate the opening balance from historic information;
  - changes in the accounting arrangements for financial instruments, including the introduction of the accounting standards FRS25 and FRS26; and
  - new arrangements to account for Local Area Agreement grant funding.
- 32** For each of the significant risks identified in relation to KPMG's use of resources work, KPMG will consider the arrangements put in place by the Council to mitigate the risk, and plan its work accordingly.
- 33** KPMG's initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through the continuous planning process as the year progresses.

## Work specified by the Audit Commission

### Whole of government accounts (WGA)

- 34 KPMG will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk. The approach varies according to the complexity of the consolidation.

### National Fraud Initiative

- 35 The Council participates in the NFI which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. Results of the data matching exercise carried out by the Commission are now web based and have already been made available to authorities. KPMG will consider how the Council responds and follows up the NFI results.

## Voluntary improvement work

- 36 KPMG are not proposing to do any voluntary improvement work at Northampton Borough Council during 2007/08.

## Certification of grant claims and returns

- 37** KPMG will continue to certify the Council's claims and returns on the following basis.
- Claims below £100,000 will not be subject to certification.
  - Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
  - Claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.
- 38** The above change will have an impact on the level of audit fees payable for the certification of grant claims in 2007/08. Once KPMG have completed the certification process in 2006/07, KPMG will provide the Council with a clearer indication of the expected fee for 2007/08.

## The audit and inspection fee

- 39 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 40 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £249, 866 which compares with the planned fee of £236,845 for 2006/07.
- 41 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Northampton Borough Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 42 As indicated in paragraphs 3 and 31, the audit planning process will continue as the year progresses and there may be some changes to KPMG's planned work and hence to the indicative fee quoted in paragraph 40 above. Any changes to the fee will be agreed with you.

## Other information

### The audit and inspection team

- 43 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

**Table 2**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Mary Perry Relationship Manager	<a href="mailto:m-perry@audit-commission.gov.uk">m-perry@audit-commission.gov.uk</a>  07818 427 483	The 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.
Will Carr KPMG LLP Appointed Auditor	<a href="mailto:william.carr@kpmg.co.uk">william.carr@kpmg.co.uk</a>  0121 232 3000	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
David Brett Senior Audit Manager	<a href="mailto:david.brett@kpmg.co.uk">david.brett@kpmg.co.uk</a>  0121 232 3879	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Debbie Stokes Audit Manager	<a href="mailto:deborah.stokes@kpmg.co.uk">deborah.stokes@kpmg.co.uk</a>  0121 232 3879	Responsible for the day-to-day management of the accounts audit, data quality and the financial aspects of the use of resources work. Key point of contact for the Senior Financial Services Manager.

## Independence and objectivity

- 44 KPMG are not aware of any relationships that may affect the independence and objectivity of the Appointed Auditor and the audit staff, which are required by auditing and ethical standards to communicate to you. KPMG complies with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 45 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 the Relationship Manager or Appointed Auditor in the first instance. Alternatively you may wish to contact the East Midlands Head of Operations, Alison Rigg. For complaints concerning the External Auditor you may wish to contact Trevor Rees, who is KPMG's Contact Partner, by e-mailing: [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk) or by telephoning: 0161 246 4281.
- 46 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 or on request.

## Planned outputs

- 47 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

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**Table 3**

Planned output	Indicative date
Annual Audit and Inspection Plan 2007/08	May 2007
Interim Progress check	June 2007
Report to those charged with governance including data quality( 06-07 year)	September 2007
Opinion on the financial statements and value for money conclusion	September 2007
Annual External Audit Report including performance indicators work (06-07 year)	December 2007
BVPP opinion	December 2007
Housing services progress check	December 2007



<b>Planned output</b>	<b>Indicative date</b>
Annual Audit and Inspection Letter 2006/07 including Direction of Travel and Use of Resources	March 2008
Streetscene and waste management inspection	April 2008
Report to those charged with governance	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Annual External Audit Report	December 2008

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p><b>Financial Reporting</b></p> <p>Following the 2005/06 accounts audit KPMG noted the need for a number of improvements to the Council's financial reporting processes. The key areas for development include:</p> <ul style="list-style-type: none"> <li>• improve the standard of working papers;</li> <li>• implementation of an independent review of the financial statements and supporting working papers; and</li> <li>• reduce the number of errors within the accounts.</li> </ul> <p>There is a risk the financial statements presented are mis-stated and the audit effectiveness is compromised.</p>	<p>Closedown procedures</p> <p>Introduction of an independent review of the financial statements and supporting working papers</p> <p>Increased capability in the finance team</p>	<p>Yes</p>	<p>KPMG will review the Council's financial reporting processes and improvements during the 2005/06 accounts audit.</p>	<p>KLOE 1 Financial Reporting Audit of Financial Statements - opinion</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p><b>Financial Management</b></p> <p>The Council was assessed as Level "1 (below minimum requirements - inadequate performance) in 2006 in its Use of Resources KLOE assessment for financial management. A number of opportunities have been identified including:</p> <ul style="list-style-type: none"> <li>• budget setting;</li> <li>• improved and more frequent budget monitoring and reporting; and</li> <li>• linkage of financial plans with corporate priorities.</li> </ul> <p>There is a risk the Council is not managing its finances.</p>	<p>Challenge by Finance Monitoring Board.</p> <p>Increased capacity in the finance team.</p> <p>Revised budget setting procedures.</p> <p>Revised budget monitoring and reporting arrangements.</p>	<p>Yes</p>	<p>Internal Audit carried out a review of budgetary control in 2006/07. A number of recommendations for improvement were made. Internal Audit plan to carry out a follow up in 2007/08.</p> <p>KPMG will review the work of Internal Audit and consider the impact on the Use of Resources Assessment 2007.</p>	<p>KLOE 2 - How well does the Council plan and manage its finances?</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p><b>Financial Standing</b></p> <p>The Council identified an over spend against the 2006/07 budget of £3.9m which was subsequently revised to £1.9m. Responsive action is being taken by the Council to reduce this figure, in addition to potentially using available reserve balances of £1m.</p> <p>The Council had to identify significant savings to balance the 2007/08 budget (£4m). The Council must ensure that it has arrangements in place to monitor that these measures are delivered in full and that the remainder of the budget is achieved, throughout the year.</p> <p>The Council is at risk of its working balances falling below the Council's agreed limits. Maintaining the working balance at this level will be a significant challenge to the Council.</p>	<p>Budget monitoring reports</p> <p>Close scrutiny by Finance Monitoring Board</p>	<p>Yes</p>	<p>KPMG will monitor the financial impact of events on the Council's financial position</p>	<p>KLOE 3.1 - The Council manages its spending within the available resources</p>
<p><b>Performance Management/BVPIs</b></p> <p>The Council achieved an overall score of 1 ('below minimum requirements - inadequate performance') in relation to Data Quality in 2006/07. The Council needs to develop its data quality arrangements further.</p>	<p>Internal Audit review of performance indicators</p>	<p>Yes</p>	<p>KPMG will review the Council's progress in improving its data quality.</p>	<p>Data Quality Audit of BVPIs</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p><b>Risk Management</b></p> <p>The Council has been working to develop its risk management with external advisors. There are further improvements needed. In particular, the Council needs to embed risk management processes throughout the organisation.</p> <p>There is a risk the Council is not managing its risks.</p>	<p>Use of external advisors.</p> <p>Challenge by Finance Monitoring Board.</p>	<p>Yes</p>	<p>KPMG will review the Council's progress in further developing its risk register and consider the impact on the Use of Resources Assessment.</p>	<p>KLOE 4 - How well does the Council's internal control environment enable it to manage its significant business risks?</p>
<p><b>Financial/Legal Capacity</b></p> <p>In the past two years it has been necessary to question some of the Authority's decision-making processes. This stems from issues regarding the quality of legal and financial advice available when key decisions are being made. The standard of advice available has on occasions been below that expected for the good stewardship of public funds.</p>	<p>Internal review of contract management procedures.</p> <p>Challenge by the Finance Monitoring Board.</p>	<p>Yes</p>	<p>KPMG will follow the progress of the internal review of contract management procedures through its representation on the Finance Monitoring Board.</p> <p>KPMG will consider the Council's progress in implementing new arrangements to enable it to provide proper advice to members before decisions are made.</p>	<p>KLOE 4.2 - The Council has arrangements in place to maintain a sound system of internal control.</p>

22 Audit and Inspection Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p><b>Accounting Standards: 2007/2008 SORP</b></p> <p>In preparing its accounts, the Council is required to comply with the Code of Practice on Local Authority's Accounting in the United Kingdom ('the SORP'), issued by CIPFA. The draft SORP 2007 proposes some significant amendments to the existing SORP.</p>	<p>The Council is a member of the Chief Accountants Network.</p>	<p>Yes</p>	<p>KPMG will review the Authority's arrangements for responding to any changes to accounting legislation ensuring these are reflected within the financial statements.</p>	<p>KLOE 1 - Financial Reporting Audit of Financial Statements - Opinion</p>
<p><b>Rent System</b></p> <p>The Council has procured a new rent system which is planned to be implemented during 2007/08.</p> <p>There are risks around the data migration and adequacy of financial controls during and after the implementation.</p>	<p>Project management.</p> <p>Involvement of internal audit in the process.</p>	<p>Yes</p>	<p>KPMG will evaluate the controls in operation over the new rent system and the Council's controls over the migration of data from the old to the new system. This work will have regard to any relevant work completed by internal audit.</p>	<p>Financial statements audit KLOE 4.2 - System of internal control</p>

## Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
<b>Audit</b>		
Financial statements	125,000	120,000
Use of resources (including BVPP)	59,050	55,050
Data quality	45,950	40,950
Whole of government accounts	3,000	3,000
National Fraud Initiative	1,000	1,000
<b>Total audit fee</b>	<b>234,000</b>	<b>219,000</b>
<b>Inspection</b>		
Relationship management	2,950	2,870
Direction of Travel	2,950	2,870
Service inspection	6,330	6,144
Recovery support including the progress checks	7,636	6,040
<b>Total inspection fee</b>	<b>19,866</b>	<b>17,845</b>
<b>Total audit and inspection fee</b>	<b>249,866</b>	<b>236,845</b>
Certification of claims and returns	TBC	TBC

- 2 The audit fee proposed for 2007/08 is £234,000 compared with £219,000 for 2006/07, which is within the level of variation specified by the Audit Commission.
- 3 Our fee for 2006/07 has been revised to include £4,000 in relation to the costs of mandated work on the Whole of Government Accounts and the National Fraud Initiative. A similar sum has been included in the 2007/08 fee.
- 4 The combined audit and inspection fee for 2007/08 represents an increase of 5.4 per cent combined fee for 2006/07.

- 5 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.
- 6 It is a matter for the auditor to determine the work necessary to complete the audit. 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.
- 7 The inspection fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.
- 8 The audit fee (plus VAT) will be charged in 4 equal instalments from June 2006 to March 2007.

## Specific audit risk factors

- 9 In setting the audit fee KPMG have taken into account the following specific risk factors.
  - Use of Resources risk factors identified in Appendix 1.
  - Changes following the implementation of the new SORP requirements
- 10 In setting the fee, KPMG have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - you will inform KPMG of significant developments impacting on its audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that KPMG can place reliance for the purposes of its audit;
  - good quality working papers and records will be provided to support the financial statements;
  - 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 local government electors.
- 11 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 KPMG issue the opinion audit plan.



- 12 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of KPMG by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Northampton Borough Council could take to reduce its audit and inspection fees**

- 13 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. KPMG have identified the following actions Northampton Borough Council could take.
- Improve its internal review procedures including ensuring that a senior finance officer reviews and signs off all working papers supporting the financial statements to ensure that they agree to the approved draft accounts, and clearly cross referenced to supporting evidence.
  - Introduce appropriate quality control procedures to ensure all grant claims submitted for audit are adequately supported and evidenced.
  - Ensuring that the completed Whole of Government Accounts Return is made available as part of the final accounts timetable.

## **Process for agreeing any changes in audit fees**

- 14 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Corporate Director - Finance.

## Appendix 3 – Independence and objectivity

- 1 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).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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.
- 4 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.
- 5 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.

- 6 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 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; and
  - The Appointed Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.