



Accountants &
business advisers

Medway Council

Annual Audit and Inspection Plan

May 2007

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1 Executive summary

- 1.1 PKF has been appointed by the Audit Commission to undertake the external audit of Medway Council with effect from 1 April 2007. This plan has been developed by PKF after discussion with management and your outgoing auditors.
- 1.2 The inspection work included in the plan has been agreed by your Audit Commission Relationship Manager, who will continue to work with the Council.

Work scope

- 1.3 The scope of the audit is determined by the Audit Commission's *Code of Audit Practice*, which covers two key areas – to provide an opinion on the Statement of Accounts and provide a conclusion on the use of resources. The detailed Code audit approach is unchanged from 2006/07, although the use of resources assessments will now be aligned to financial years, and cover the period up to 31 March 2007.
- 1.4 Handover arrangements have been agreed with PricewaterhouseCoopers (PWC), who will undertake the use of resources assessment in 2007 to support their 2006/07 value for money conclusion.

Key audit risk areas

- 1.5 The Council performs well in certain areas and has identified areas where it needs to improve further. Based on our discussions to date, some of the more significant risk areas facing Medway affecting our audit of the annual accounts include:
- responding to issues raised by auditors in the annual governance report
 - compliance with the SORP 2007 including changing the Fixed Asset Restatement Reserve into a UK GAAP compliant Revaluation Reserve, new accounting treatment for Local Area Arrangements and accounting for Charities as group accounts
 - the need to ensure that transactions involving a Private Finance Initiative (PFI) to reconfigure services to Older People in the area are properly accounted for.
- 1.6 The more significant audit risk areas affecting our assessment of the Council's use of resources include:
- the need to stabilise the overall financial position and agree a balanced Medium Term Financial Strategy. The Council recognises that this is a significant challenge given its ambitious plans for the continued regeneration of the area and service improvement
 - ensuring that the improved performance being reported in the Council's priority areas is sustained and that Medway's stated principle for securing value for money and its aim of effective financial management across the organisation are met.

- the need to ensure that work with the partners achieves stated objectives, particularly through the Local Strategic Partnership but also through the pooled budgets established with the NHS
- ensuring that the PFI now being progressed with NHS partners under a Local Improvement Finance Trust ('LIFT') delivers the improvements expected in services for older people
- ensuring that the project for rationalising office accommodation and relocation of staff to a single site is delivered in accordance with the Council's plans. The Council will need to ensure, and demonstrate, that the project delivers value for money in terms of the financial savings and efficiencies expected
- the need to ensure that corporate arrangements for risk management continue to develop.

1.7 Further information on these key and other risks, and our proposed response to these are included in the main report and in detail in Appendix A.

Fees

1.8 The proposed audit and inspection fee for the year is £347,478, which is an increase on the previous year, as shown below:

	2006/07	2007/08
Audit	256,500	295,000
Inspection	131,649	52,478
Total audit and inspection	388,149	347,478

1.9 The increase in the audit fee arises because of the:

- general increase in fees as published in the Audit Commission's annual fees letter (in 2007/08 the increase is 2.75 per cent over the 2006/07 year)
- inclusion of Whole of Government Accounts (WGA) within the fees charged to Councils for the first time
- increase in the fee determined by your outgoing auditors to carry out use of resources and data quality work (the detailed work on performance indicators will be completed by PKF)

1.10 The inspection fee has increased because the Council has agreed that an inspection of its Strategic Housing function should be undertaken by the Audit Commission over the next 12 months.

1.11 The Audit Commission, in its annual fees letter, suggests that the fee for the audit of a Council with Medway's expenditure plans and risk profile should amount to about £329,000. The proposed audit fee is 10 per cent below the recommended level.

Key outputs

1.12 The key audit and inspection outputs for Members will be:

Output	Expected timing	Completed by
Audit and Inspection Plan	September 2007	PKF
Results of review of the Authority's data quality arrangements	October 2007	PKF/PWC
Report on use of resources and assessment scores	December 2007	PWC
ISA 260 Report on the 2007/08 Accounts	September 2008	PKF
Auditor's Opinion, covering: <ul style="list-style-type: none"> • Statement of Accounts • Use of Resources conclusion • BVPP 	September 2008 September 2008 December 2007	PKF
Annual Audit and Inspection Letter	December 2008	PKF/ Audit Commission
Direction of Travel statement	TBA by AC	Audit Commission
Strategic Housing Inspection report	February 2008	Audit Commission

2 Introduction

- 2.1 This joint audit and inspection plan sets out the audit and inspection work proposed to be undertaken in 2007/08 by PKF, PWC and the Audit Commission.
- 2.2 This Plan has been drawn up from our risk based approach to audit planning and planning meetings held with you. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for 2006/07 has not yet been completed, 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. Any significant changes to the Plan will be reported to the Audit Committee.
- 2.4 The Relationship Manager will be responsible for ensuring further integration and co-ordination with the work of other inspectorates.
- 2.5 Set out below are some key details related to the process supporting the preparation of this audit plan.

Work of the Auditors – PKF and PWC

- 2.6 Our principal objective as your appointed auditor is to carry out an audit that is tailored to focus on the specific financial and operational risks you face and meets the requirements of the Code.

PKF audit work

- 2.7 The work of the auditors that is covered by this plan can be summarised as follows:
- review of the key financial systems used in preparing the accounts to 31 March 2008
 - review of the statement of accounts prepared for the year ending 31 March 2008
 - risk based work on Medway's arrangements for securing economy, efficiency and effectiveness in the use of resources during 2007/08 including the audit of the best Value Performance Plan
 - in partnership with PWC, and following the Audit Commission's methodologies, a review of the Council's data quality arrangements and selected performance indicators for 2006/07 (PWC will complete an assessment of the Council's management arrangements in this area known as 'stage 1' of the data quality audit)

PWC audit work

- 2.8 PWC will also complete an assessment of Medway's arrangements to secure economy, efficiency and effectiveness in the use of resources in place throughout 2006/07 and will report its findings to management and submit its scored judgements to the Audit Commission as part of the 2007 CPA of the Council.

Inspection work – Audit Commission

- 2.9 This Plan also sets out the inspection work that is proposed in 2007/08, which links to your improvement priorities, as summarised under section 5 of this Plan and in Appendix B.
- 2.10 Discussions have been, and will continue to be, held between auditors and inspectors to ensure that the audit and inspection work in this Plan continues to be co-ordinated and targeted at your key areas for improvement.

Assessing risks

- 2.11 We are committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit 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 co-ordinated with the work of inspectors and other regulators, and that our work helps you to improve.
- 2.12 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council
 - planning guidance issued by the Audit Commission
 - the specific results of previous and ongoing audit work
 - discussions with Council officers
 - liaison with internal audit
 - the results of other review agencies' work where relevant.
- 2.13 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.

3 Accounts

3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.

3.2 In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts; and
- the robustness of your Accounts preparation processes.

3.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.

Internal controls and key financial systems

3.4 International Standards in Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls, and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

3.5 This requires additional work to be undertaken to identify and understand the internal controls, evaluate the design of the control and determine whether it has been implemented. The evaluation of the design of a control involves considering whether it, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

3.6 Where the audit intends to rely on identified controls to reduce risk or the level of substantive testing otherwise required, the auditor must also undertake tests of the operating effectiveness of the relevant controls. The core financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the Statement of Accounts.

Working with Internal Audit

3.7 The Audit Commission expects that appointed auditors and Internal Audit departments have been working together to ensure that audit work is most effectively targeted in well-managed authorities, thereby minimising duplication and the overall level of audit resource input.

3.8 We have planned the 2007/08 audit on the basis that we will be able to place full reliance on the work of Internal Audit, the relevant areas of this coverage are set out in our fee assumptions in section 6. This assumption is based upon the preliminary discussions with your current auditors in respect of arrangements for 2006/07 and our consideration of your Statement on Internal Control in your 2005/06 accounts.

Fraud risk assessment

- 3.9 Under ISA240, we have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.
- 3.10 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and 'those charged with governance'.
- 3.11 In order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks, we will:
- discuss your anti fraud and corruption arrangements with officers and 'those charged with governance'
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud
 - make inquiries regarding instances of actual fraud you have identified
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.
- 3.12 For all residual fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your Accounts and our audit programme.

Accounts preparation

- 3.13 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

Statement on Internal Control

- 3.14 We will review your Statement on Internal Control (SIC) to assess whether it has been presented in accordance with guidance, is adequately supported by an assurance framework, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.
- 3.15 In previous years, the SIC has been supported by the work of Internal Audit and the outgoing auditor has not identified any significant inconsistencies with the information included in this statement.

Whole of Government Accounts

3.16 As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office and for Band 2 Authorities, of which you are one, focuses on ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Key accounts risks

3.17 We have not included a detailed risk assessment for our audit of the financial statements as the specific risks may not become apparent until after completion of the 2006/07 audit. If necessary we will issue a separate update to this audit plan for issues in respect of our audit of the financial statements in November 2007. However, at this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:

- responding to issues raised by auditors in previous years
- compliance with the SORP 2007 including changing the Fixed Asset Restatement Reserve into a UK GAAP compliant Revaluation Reserve, new accounting treatment for Local Area Arrangements and accounting for Charities as group accounts
- the need to ensure that transactions involving a Private Finance Initiative to reconfigure services to Older People in the area are properly accounted for.

3.18 In addition there are some emerging issues and other factors affecting the Accounts compilation process on which we intend to maintain an ongoing review during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:

Issue	Potential risk
Single Status Pay	Equal pay under the Single Status Agreement should be implemented by the 31 March 2007 ensuring all current and backdated pay no longer contains inequalities based on sexual discrimination. We are aware that the Council has made progress in this area and we will review the position disclosed in the 2007/08 accounts.
International Financial Reporting Standards (IFRS)	Following the Chancellor's 2007 budget, local authorities are expected to fully implement IFRS (standards) by 2008/09. This may require prior year balances to be restated to ensure full compliance.

4 Use of Resources

4.1 The Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion).
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information.
- audit your best value performance plan.

Value for money conclusion

4.2 In reaching the value for money conclusion the Code requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission.

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

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

Use of Resources assessment

4.5 The Audit Commission has specified that auditors will complete a use of resources assessment as part of the 2007/08 audit. 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.

4.6 The fee for this work has been determined by your outgoing auditors (PWC) and they will report their findings to management and submit scored judgements to the Audit Commission.

4.7 The timetable for completion of this work has changed to ensure that the use of resources assessment is fully aligned with the work required to arrive at the Audit Commission's value for money conclusion for the year ended 31 March 2007. The 2007 assessment will focus on the progress made since the last assessment was completed and will take account of changes made to specific criteria.

- 4.8 A score of 1 to 4 will be given, based on underlying key lines of enquiry, for each of the following themes:

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

- 4.9 There are a number of modifications to the Key Lines of Enquiry (KLOE), with several of the criteria now assuming “must have” status.

Best Value Performance Information – Data Quality

- 4.10 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 – review of overall management arrangements to secure data quality
- Stage 2 – completeness check of reported performance information
- Stage 3 – data quality spot check and in-depth review of specified performance indicators.

- 4.11 The work at stage 1 links to the review of the Council’s arrangements to secure data quality as required for the value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will also inform the Commission’s CPA assessment. It is expected that between 4 and 10 indicators will be subject to in-depth review for a Unitary Authority.

- 4.12 As with the work in respect of the Use of Resources assessment, and the need for the outgoing auditors to place reliance on the results of stage 1 of this work when forming their overall value for money conclusion, this work will be completed by the outgoing auditor. As the incoming auditors, we will perform the review of movements on indicators from prior years, as well as the detailed review of papers supporting the calculation of a number of key indicators (stages 2 and 3).

Best Value Performance Plans (BVPPs)

- 4.13 We will consider and report on whether you have complied with statutory requirements in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.

Key use of resources risks

4.14 We have included in Appendix A our assessment of the risks relevant to our Use of Resources audit work and our planned response to those risks. The key risks are:

- the need to stabilise the overall financial position and agree a balanced Medium Term Financial Strategy. The Council recognises that this is a significant challenge given its ambitious plans for the continued regeneration of the area and service improvement
- ensuring that the improved performance being reported in the Council's priority areas is sustained and that Medway's stated principle for securing value for money and its aim of effective financial management across the organisation are met.
- the need to ensure that work with the partners achieves stated objectives, particularly through the Local Strategic Partnership but also through the pooled budgets established with the NHS
- ensuring that the PFI now being progressed with NHS partners under a Local Improvement Finance Trust ('LIFT') delivers the improvements expected in services for older people
- ensuring that the project for rationalising office accommodation and relocation of staff to a single site is delivered in accordance with the Council's plans. The Council will need to ensure, and demonstrate, that the project delivers value for money in terms of the financial savings and efficiencies expected
- the need to ensure that corporate arrangements for risk management continue to develop.

5 Audit Commission CPA and Inspection

- 5.1 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.
- 5.2 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. Medway was categorised as a 3 star organisation under CPA 2006. 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 Council's performance.
- 5.3 In the corporate assessment carried out in 2006 the Council achieved an overall score of 3, i.e. that they were performing well. Particular strengths in the Council's performance include:
- good progress in regeneration initiatives
 - work to improve health and employment in defined areas
 - sustained improvement in adult social care
 - strong partnership working
 - financial management.
- 5.4 Areas for improvement in the Council's performance include:
- outcomes on crime reduction are inconsistent
 - inconsistent performance management
 - affordable housing
 - weaknesses in children's social care
- 5.5 On the basis of our planning process we have identified where our inspection activity will be focused. This is summarised in the table below:

Inspection activity	Reason/impact
Strategic Housing Inspection	An inspection of the Council's strategic approach to the provision of housing in the area. This will result in a scored report and will be published on the Commission's website.
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
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council 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.

- 5.6 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.

6 Fees and Audit Arrangements

Fees

- 6.1 As in previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.

Audit

- 6.2 The audit fee, excluding grants and challenge work, for the period from April 2007 to March 2008 will be £257,000 plus VAT for the PKF element of the work. The fee is based on our understanding of audit requirements at the time of drafting this Plan. Your outgoing auditors (PWC) estimate that the fee for undertaking their audit of Medway's use of resources and for reviewing the management arrangements established by the Council for securing data quality will amount to a further £38,000.
- 6.3 The total audit fee amounts to £295,000.

Inspection

- 6.4 The fee payable for the 2007/08 programme of inspection work, as determined by the Audit Commission net of any central government grant, is £52,578.

Analysis

6.5 An analysis of the fee by audit and inspection area is shown below.

Work area	Work by	2007/08 Fee £	2006/07 Fee £
Code of Audit Practice			
Accounts (1)	(PKF)	190,000	190,000
Whole of Government accounts (2)		3,000	
Subtotal accounts		193,000	190,000
Use of Resources – KLOE (3)	(PWC)	28,000	30,000
Use of Resources – Data quality stage 1 (4)	(PWC)	10,000	
Use of Resources – Data quality stage 2 and 3	(PKF)	32,300	}15,000
Use of Resources – BVPP	(PKF)	2,700	
Use of Resources – specific risks	(PKF)	29,000	17,000
Subtotal Use of Resources		102,000	62,000
Subtotal Audit		295,000	255,000
Relationship Management and Direction of Travel	(AC)	24,338	18,112
Strategic Housing inspection	(AC)	28,140	-
Supporting People Inspection and triennial Corporate Assessment	(AC)		113,537
Total audit and inspection		347,478	386,649

Notes

- (1) The fee for the audit of accounts has been held at the level agreed by your outgoing auditors. We will liaise with PWC on the outcome of the 2006/07 audit of accounts in the event that additional work is required
- (2) WGA not included in 2006/07 fee (paid for directly by DCLG to the Audit Commission)
- (3) Fee for Use of Resources KLOE work will be determined by your outgoing auditor and billed by them
- (4) Fee determined and detailed work undertaken by PWC

6.6 As noted previously, the work on the update to the Use of Resources KLOE scores and BVPI data quality stage 1 will be completed by your outgoing auditor, and as such subject to a separate billing arrangement with them. We have included the fee for this work here to allow for a comparison to the prior year of both the overall fee and its component parts.

6.7 The detailed sub-analysis above is provisional and based on our current estimations of the risks and the impact of changes to requirements in 2007/08.

Grants

6.8 The fee for the review of grant claims will be billed separately, based on the Audit Commission's grade related rates as set out in their publications "Work Programme and Fee Scales 2007/08".

6.9 We have discussed the arrangements for completing the work on the 2006/07 claims with your outgoing auditor. In line with the guidance from the Audit Commission, this work will be completed by your outgoing auditor.

Questions and Objections

- 6.10 Time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Assumptions

- 6.11 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed their systems testing in accordance with their plans and to an adequate standard
 - you will keep us informed of any significant changes to your main financial systems or procedures
 - you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
 - you will ensure that action plans are completed promptly and the implementation of recommendations by the due date is actively monitored
 - there are no major changes to the content of government department grant instructions
 - you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns".

Process for agreeing changes to fees

- 6.12 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 Chief Executive and the Chief Financial Officer. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit committee.

Billing Arrangements

- 6.13 Your audit fee for work completed by PWC will be billed in 3 instalments as follows:

Month	£
September 2007 (first two quarters)	128,500
December 2007	64,250
March 2008	64,250
Total	257,000

Other Billing	£
PWC	38,000
Audit Commission	52,478

- 6.14 Work completed by your outgoing auditor in respect of the work on the Council's Use of Resources KLOE (£28,000) and BVPI data quality stage 1 (£10,000), will be billed directly by PricewaterhouseCoopers. Inspection work (£52,478) will be billed by the Audit Commission.

Other fees to be agreed with the Council

- 6.15 Based on our discussion with officers, we have identified a number of areas where audit work will need to be undertaken that is not included in the core audit fee. We will provide further details of the scope and fee for this work after full discussion with officers and will report outcomes to the Audit Committee and in our annual governance report. The areas where additional work is expected to be required includes:
- Private Finance Initiative for Older Peoples Services – FRS5 opinion
 - Rochester Bridge Trust accounts (to be confirmed).
- 6.16 We will continue to discuss with management areas where PKF can undertake work to assist Medway in achieving its improvement plans. Work not included in this plan will be reported to management and the Audit Committee in accordance with agreed protocols.

Staffing

6.17 The following staff will be involved in the audit throughout the course of the year:

Audit Staff		
Partner	Robert Grant	Email: robert.grant@uk.pkf.com (to confirm) Tel: 020 7065 0170
Senior Manager	Stuart Frith	Email: stuart.frith@uk.pkf.com Tel: 020 7065 0432
Supervisor	Andrew Lynas	Email: andrew.lynas@uk.pkf.com Tel: 020 7065 0650

Inspection Staff		
Relationship Manager	Paul Chambers	Email: p-chambers@audit-commission.gov.uk Tel: 01732 591350

Timetable

6.18 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit Timetable	Month
Accounts – core financial systems	March /April 2008
Accounts – Statements of Account and SIC	July / August 2008
Use of Resources – KLOE review*	August / September / October 2007
Use of Resources – Data Quality stage 1*	August 2007
Use of Resources – Data Quality stage s 2 and 3	August /September 2007
Use of Resources – BVPP	September 2007
Inspections	To be advised

* - To be completed by your previous auditor

6.19 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

Independence

6.20 International Standard on Auditing 260 (“ISA260”) requires auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

6.21 We have included in Appendix B to this Plan a statement to the Audit Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.

6.22 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 6.23 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Robert Grant in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 6.24 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 6.25 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain. What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors” that is available on request.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	<p>The SORP 2007 has brought in a number of changes</p> <ul style="list-style-type: none"> Fixed Asset Restatement Account must be changed to a UK GAAP compliant Revaluation Reserve. A new accounting treatment for Local Area Agreements. CIPFA has outlined the proposed accounting treatments for the funding depending on the specific arrangements of the LAA. Changes to the accounting treatment for Government grants may require additional disclosures and reclassification between of general and restricted grants. 	<p>Management will review the implications of the finalised SORP 2007 and we will agree an appropriate way forward to comply with the new accounting requirements.</p>	<p>In view of the number of significant changes there remains a risk that the accounts may contain significant errors or omissions.</p> <p>Significance – Medium Use of Resources KLOE 1.1</p>	<p>We will agree with management the necessary amendments to the accounts preparation processes, reporting format, and undertake detailed audit procedures on those transactions and balances subject to amendment as a result of the SORP 2007.</p>
2	<p>In previous years, a number of issues have been raised by auditors in their annual governance reports about the accounting policies followed by the Council.</p>	<p>Management is aware of issues arising and has discussed these with PKF.</p>	<p>Further work may be necessary to ensure that accounts presented by the Council are fair.</p> <p>Significance – Medium Use of Resources KLOE 1.1</p>	<p>We will hold quarterly liaison meetings with management at which issues arising can be reviewed and discussed.</p> <p>We will also review detailed action plans and associated evidence supporting the steps taken to address issues.</p>
Accounts and Use of Resources				
Private Finance Initiative				
3	<p>The Council is involved in a PFI for the future provision of services to older people. The Council will need to ensure that the PFI meets the criteria specified and guidance published by the Government department and that the correct accounting treatment is followed.</p>	<p>The Council is working with its financial advisers to demonstrate the affordability of the PFI and to ensure that evidence is provided to support the off balance sheet treatment. PKF will need to form a view and report back to the Chief Financial Officer on these issues.</p>	<p>Work will need to be completed by Medway to address the risks that the full costs of the PFI are identified, that it is affordable and that the accounts of the Council are fairly stated.</p> <p>Significance – High Use of Resources KLOE 1.1 and 5.1</p>	<p>Detailed work to review the accounting treatment of the PFI. An opinion under FRS5 will need to be prepared.</p> <p>We will agree a separate fee for this work.</p>

Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Use of Resources			
Financial Management			
4	The Council is facing a challenging financial outlook. The financial position needs to be stabilised for the medium term and planned efficiency savings will need to be achieved over the next 12 months and beyond.	The Council is preparing a revised Medium Term Financial Plan and is looking at the potential for savings across the organisation.	The level of savings needed to achieve the Council's published financial plans is significant. Some expenditure pressures are emerging as at the end of July 2007. Significance – High Use of Resources KLOE 3.1
5	Officers recognise that further work is needed to fully integrate financial and service planning.	Work is underway to ensure that the corporate approach is developed and embedded across the organisation.	There remains a risk that the Council's financial resources are not fully and consistently aligned to its priority areas. Significance – High Use of Resources KLOE 2.1
Service performance			
6	The Council has set challenging performance improvement plans for certain services that will require careful monitoring.	The Council receives regular reports from officers on service performance issues (at least quarterly) and better performance is now being reported.	There remains a risk that further action may be required to sustain the improved performance now being reported. Significance – High Use of Resources KLOE 5.1
Risk Management			
6	The approach to risk management needs to develop further and fully embedded across the Council.	The Council is undertaking a programme of training and review to ensure that corporate standards are fully understood and implemented consistently across the organisation.	There remains a risk that corporate standards are not fully followed. Significance – High Use of Resources KLOE 4.1

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Use of Resources continued				
Partnership working				
7	<p>The Local Area Agreement (LAA) has been in place for some time. There are considerable public funds being channelled through it and substantial resources of the Council and partner bodies are being utilised to pursue LAA objectives, for which the Council is the accountable body. The additional complexity incurred through joint working increases the risk of failure in the achievement of objectives.</p>	<p>As part of the LAA there are documented governance arrangements, performance management arrangements and financial management controls that have been put in place.</p>	<p>The significance of the LAA means any weaknesses in the governance control environment could potentially lead to a material impact on the use of resources. There remains a residual risk in the event that arranged controls are ineffective or inadequately designed.</p> <p>Significance - High Use of Resources KLOE 5.2</p>	<p>We will obtain an understanding of how the LAA works in practice, focusing on the financial management arrangements and how the performance management framework ensures value for money.</p>
8	<p>The Council is involved in an array of partnerships to deliver shared priorities. It needs to ensure that outcomes are specified and that responsibility for delivery is clearly defined. In particular, the performance of the pooled budgets established with NHS partners will need to be carefully managed.</p>	<p>The Councils has worked with its outgoing auditors to review Medway's partnerships.</p>	<p>The Council will need to ensure that improvement plans are drawn up and implemented in the light of the review partnerships completed by the outgoing auditors.</p> <p>Significance - High Use of Resources KLOE 5.2</p>	<p>We will follow up the progress of the Council in implementing recommendations made by outgoing auditors.</p>
Office rationalisation				
9	<p>The Council is working to deliver a complex project for rationalising office accommodation and the relocation of staff to a single site. The Council will need to ensure and demonstrate that the project delivers value for money in terms of the financial savings and efficiencies expected.</p>	<p>A team involving senior management, including the Chief Executive is overseeing delivery and Members are receiving regular reports on progress.</p>	<p>The implementation of the project in accordance with the Council's plans may adversely affect senior management capacity in the short term. The risks of project overrun and overspending remain extant.</p> <p>Significance - High Use of Resources KLOE 5.2</p>	<p>We will discuss progress with the relocation at quarterly liaison meetings.</p>

Appendix B

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Audit Committee, Medway Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires 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 ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Medway Council it has been agreed that 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 board/authority on matters which are considered to be of sufficient importance.

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;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

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 or Regional Director;

- 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 both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner 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.

Statement by the Appointed Auditor

In relation to the audit of the financial statements for Medway Council for the financial year ending 31 March 2008, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

Statement by the Relationship Manager

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.