



*St Edmundsbury*  
BOROUGH COUNCIL

# C453

## Performance and Audit Scrutiny Committee 16 April 2012

### Audit Commission - Presentation of Audit Plan – Audit 2011/12

#### SUMMARY

Representatives from the Audit Commission will be attending the meeting to present the attached Audit Plan. This document sets out the work for the 2011/12 Audit.

A proposed timetable for the audit is included, as well as details of fees to be charged, and reports to be received by the Committee across the year.

#### PURPOSE OF THE REPORT

The content of this Audit Plan is for information.

#### Contact Details

Name  
Telephone  
E-mail

#### Chairman

John Hale  
01359 221141  
[john.hale@stedsbc.gov.uk](mailto:john.hale@stedsbc.gov.uk)

#### Audit Manager

Jon Snares  
01284 757239  
[jon.snares@stedsbc.gov.uk](mailto:jon.snares@stedsbc.gov.uk)

# Audit plan

St Edmundsbury Borough Council

Audit 2011/12



# Contents

---

Introduction.....	3
Accounting statements .....	4
Value for money.....	9
Key milestones and deadlines .....	10
The audit team .....	12
Independence and quality .....	13
Fees .....	14
Appendix 1 – Overview of the audit approach.....	17
Appendix 2 – Impact of the ISA Clarity Project.....	26
Appendix 3 – Independence and objectivity .....	28
Appendix 4 – Basis for fee.....	30
Appendix 5 – Glossary.....	31

# Introduction

---

**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Performance and Audit Scrutiny Committee, as those charged with governance, of their responsibilities.

# Accounting statements

---

**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Headline materiality for this year's audit has been calculated at £1.3m and will be revised when I receive the 2011/12 financial statements. Matters in excess of the level at which issues are clearly considered to be trivial (£13k - but also to be updated) will be reported to the Performance and Audit Scrutiny Committee via the Annual Governance Report. I also apply a lower level of materiality to areas that are politically or numerically sensitive, for example, in respect of cash and bank, related party transactions and senior officer pay.

## **Identifying audit risks**

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

## **Identification of significant risks**

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Specific opinion risks identified to date

Risk	Audit response
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are fairly stated.</p>
<p><b>Property, Plant and Equipment</b></p> <p>As reported in our 2010/11 Annual Governance Report our work last year identified some errors and weaknesses in the Council's systems for accounting for fixed assets. There is a risk that assets under construction (additions), infrastructure assets and revaluations and impairments will be materially misstated.</p>	<p>We will follow up the issues raised last year.</p> <p>We will review and test data extracted from the asset 4000 fixed asset system.</p> <p>We will undertake procedures for reliance on the work of the valuer and carry out tests of detail on valuations and impairments.</p>
<p><b>Anglia Revenues Partnership</b></p> <p>From 1 April 2011, the Council's revenues and benefits service transferred to the Anglia Revenues Partnership (ARP).</p> <p>The revenues and benefits system changed from Northgate to Academy during the year.</p>	<p>Review of the contractual arrangement to gain an understanding of the ARP arrangement and any implications for the financial statements and potential requirement to prepare group accounts.</p> <p>Review of internal audit coverage, and management controls such as monthly review of financial performance.</p> <p>Review of management oversight of reconciliations between expected</p>

**Risk****Audit response**

information from the partnership and actuals, including exception reports.  
 Tests of detail, including sample checking of items of account produced by ARP to source documentation.

**Testing strategy**

My audit involves:

- for each material information system documenting my understanding of how the relevant transactions are initiated, recorded, processed and reported;
- for each material information system undertaking a walkthrough test to confirm that the systems and controls are operating as described;
- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	<b>Review of internal audit</b>	<b>Controls testing</b>	<b>Reliance on the work of other auditors</b>	<b>Reliance on work of experts</b>	<b>Substantive testing</b>
Interim visit	General ledger ARP systems: Council Tax	General Ledger ARP systems: Council Tax	Letter of assurance on ARP systems to be obtained from Breckland District Council's auditor (also Audit		Accounts receivable Accounts payable



	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
	NNDR Housing Benefits	NNDR Housing Benefits	Commission)		
Final visit	Head of Internal Audit Opinion		Pensions fund and FRS 17 disclosures – Suffolk County Council’s auditor (also Audit Commission)	Pensions fund and FRS 17 disclosures – Hymans Robertson and our own consulting actuary Valuation of property, plant and equipment – the Council’s Corporate Property Officer	All material accounts balances and amounts Year-end feeder system reconciliations

Additional information on the overall audit approach is provided in Appendix 1.

## Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

## International Standards on Auditing (ISAs) impact of the ISA Clarity project on the 2011/12 audit

The audit of the financial statements I deliver is governed by the International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern our professional conduct. In 2009 the auditing profession completed a comprehensive project to improve the clarity of all ISAs. This is known as the Clarity Project.

One of the main objectives of the Clarity project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and the information we seek from you.

In summary the main changes covered:



- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

The impact of these changes is set out at Appendix 2.

# Value for money

---

## **I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

### **Identification of significant risks**

I am finalising my risk assessment for my Value for Money (VFM) conclusion. I have not identified any significant risks which would require specific risk-based work. Should any risks emerge which would affect my programme of VFM audit work I will communicate this to you.

## **I consider the Council's arrangements to secure economy, efficiency and effectiveness.**

For 2011/12 the Commission has determined that the scope of my work on value for money at the Council is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as appropriate.

As I am not aware of any relevant work of other relevant regulatory bodies or inspectorates and I have not identified any significant risks requiring specific risk-based work, my work will comprise a review of your AGS. On the basis of this review I will determine whether there are any matters that I need to report.

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Officer attendance at LG final accounts workshop, Homerton College, Cambridge	17 January 2012	
Joint audit/finance team workshop – lessons from 2010/11 and preparing for 2011/12	24 January 2012	
Opinion: system walkthroughs, controls testing and early substantive testing	Feb-April 2012	
Opinion: financial statements set up meeting	TBC week commencing 25 June 2012	
Opinion: receipt of accounts and supporting working papers	29 June 2012	
Opinion: start of detailed testing	2 July 2012	
Progress meetings	Weekly from 2 July 2012	
Audit closure meeting with Chief Finance Officer	TBC week commencing 10 September 2012	
Agree Annual Governance Report with Chief Finance Officer	TBC week commencing 10 September 2012	

Activity	Date	Output
Value for money: consideration of arrangements	By 30 September 2012	Value for Money conclusion
Present report to those charged with governance at the Performance and Audit Scrutiny Committee	25 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

# The audit team

---

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Neil Harris District Auditor and Engagement Lead	neil-harris@audit-commission.gov.uk 07967 624 335	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Melanie Richardson Audit Manager	melanie-richardson@audit-commission.gov.uk 07879 668 714	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer.
Mike Wood Audit Team Leader	mike-wood@audit-commission.gov.uk 07816 310 321	Leads the on-site audit fieldwork and works with the Audit Manager to deliver the audit. Provides regular updates on audit progress by liaison with the Deputy Chief Officer and finance staff.

# Independence and quality

---

## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 3.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

---

**The fee for the audit is £95,760, as set out in my letter of 20 April 2011 and reported to the Performance and Audit Scrutiny Committee on 27 July 2011.**

## The audit fee

For 2011/12, the Audit Commission has specified individual scale fees for all audited bodies. In previous years, the Commission has determined scales fees with fixed and variable elements that reflect the type, size and location of audited bodies. The appointed auditor has then set the individual fees, based on the scale fee adjusted as necessary to reflect the level of local risk and the scale and complexity of the audit.

The Audit Commission has set a scale audit fee of £95,760 for St Edmundsbury Borough Council and is based on the planned 2010//11 fee, and reflects

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.



## Assumptions

In setting the fee, I have made the assumptions set out in appendix 4. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with Chief Finance Officer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide continuing audit support.

There are a number of technical changes which are applicable to the financial statements for local authorities in 2011/12. These changes apply to all local authorities and are contained in CIPFA's International Financial Reporting Standards (IFRS) based Code. The Audit Commission is holding a series of workshops for local authority staff involved in preparing financial statements for 2011/12. Attendance at one of these workshops will assist officers to focus attention on the key changes this year.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 5: Fees

	2011/12 proposed	2010/11 actual
Audit	95,760	110,600*
Certification of claims and returns	42,000	47,867 (estimate)
<b>Total</b>	<b>137,760</b>	<b>TBC</b>

\* My audit team experienced difficulties in obtaining resolution to queries in some key areas of the IFRS Code. The 2010/11 actual fee therefore includes an additional fee of £9,800.

\*\* Follow up work in respect of the 2010/11 Housing Benefits and Council Tax Benefits grant claim is currently ongoing.

# Appendix 1 – Overview of the audit approach

---

## Audit approach

To support effective joint working I want you to understand my approach to delivering your audit. Table 6 shows a summary of my approach and my proposed timetable.

---

Table 6: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
Pre-statements	Documenting and walking through your material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Carrying out substantive testing before the year end on material figures that you expect to be included in the financial statements.	February to April 2012
Post-statements	Testing the material balances and notes within your financial statements.	July to September 2012

## Pre-statements audit

I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements. The systems that I have identified as material are set out in table 9.

To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed there have been no changes to that system I simply walk through the system to confirm my understanding. This is an area where I cannot place reliance on the work of Internal Audit as the ISA does not allow this.

The Council's revenues and benefits systems were transferred to Anglia Revenues Partnership from 1 April 2011. For transferred or outsourced systems I obtain an understanding of the systems and the operation of the controls through liaison with the host authority's auditors (Breckland DC's external auditors, also Audit Commission). I do not carry out my own walkthrough or controls testing for elements of the system that reside with ARP, although I do consider the controls that remain at the Council.

## Identifying and testing key controls

Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

Testing that these key controls are operating effectively provides me with assurance there is a reduced risk that your financial statements contain material errors. It also enables me to report to you any deficiencies in your system of internal control.

I consider how to get assurance for the material entries in the accounts against each of the management assertions (see table 7)

Table 7: **Management assertions**

I consider the following management assertions

Assertion	Consideration	Revenue account and notes	Balance sheet and notes	Other disclosure notes
Accuracy	Is it recorded at the right amount and are the details right?	√		√
Classification	Is it in the right place in the financial statements?	√		√
Completeness	Is it all there?	√	√	√
Cut-off	Is it in the right year?	√		
Existence	Is it real, does it exist?		√	
Occurrence	Has it happened?	√		√
Rights and obligations	Does it belong to the Council? Is the Council entitled to use it?		√	√
Valuation and allocation	Is it worth it? Is it shown at an appropriate amount?		√	√

Source: ISA (UK&I) 315

I plan to use a mixture of controls and substantive testing as set out in table 8. I seek to place reliance on Internal Audit controls testing where appropriate (following an overall assessment of Internal Audit's arrangements).

**Table 8: Material financial systems**

I have identified the following material systems at the Council

System	Proposed controls/substantive approach
General ledger	Controls/substantive
Accounts receivable	Substantive
Accounts payable	Substantive
Cash and bank	Controls/substantive
Payroll	Controls/substantive
Fixed assets	Substantive
Treasury management	Controls/substantive
Council tax	Controls/substantive
NNDR	Controls/substantive
Housing benefits	Controls/Substantive

Where I elect to test compliance with key controls and our controls testing is successful then, under certain circumstances, I can place reliance on these controls for three years (with the exception of General Ledger where controls testing is required every year). However, if there are circumstances such as changes to the financial system, as with the transfer of certain systems to ARP, or to key staff I have to test controls again within the three year cycle.

In 2011/12 the areas that I determined would be subject to controls testing were the ones which have changed following the move to ARP:

- General ledger
- Council tax
- NNDR
- Housing benefits

Our review of information systems may identify key controls which relate to budgetary control arrangements. We do not rely on budgetary control as a key control. However we consider budgetary controls as part of our risk identification processes.

For those information systems highlighted above I review and evaluate specific areas of Internal Audit work where I am planning to place reliance on their testing of controls. I reperform or extend some of the testing on a sample basis to confirm that I agree with their findings, and to ensure there is sufficient assurance for the audit year. Internal Audit work on areas outside of our triennial programme is reviewed for any findings which may impact on our ability to rely on previous year's findings.

## Control environment and Information Technology (IT) controls

I consider the strength of your control environment and general IT controls in assessing the risk that your financial statements are free from material misstatement.

As part of the pre-statements audit, I consider and document the control environment in which you operate. This information is obtained in several ways including:

- considering the cumulative audit knowledge we have gained since our appointment;
- obtaining and reviewing background information from the Council;
- reviewing committee agendas, minutes and papers;
- meetings and discussions with officers;
- considering the findings of your Internal Auditors;
- attendance at the Performance and Audit Committee Scrutiny meetings;
- LG auditors meetings and associated information on arising risks and issues across local government;
- access to our internal local government technical directory and weekly audit practice issues bulletin.

In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.



## Early testing of material balances and notes

During the pre-statements audit, I can consider any aspects of your financial statements that will be known before the year end.

## Planning the post-statements audit

The findings from my pre-statements systems audit are drawn together to derive my Risk Assessment Matrix (RAMx). This is a recording tool for each risk identified during the audit, which assertion it relates to, the work planned to mitigate the risk, the outcomes of audit procedures performed, any errors and uncertainties identified and any reporting issues. The RAMx is the constant thread which runs through the audit, directing and recording the results of audit testing. We initially develop it as part of our pre-statements work, but update it as the audit progresses.

Initial final accounts planning begins as our pre-statements work is completed, and is updated up to the receipt of the accounts. At this point we carry out analytical review procedures which may highlight additional risks.

## Post-statements audit

At the post statements stage of the audit I focus my work on testing of the material balances and notes within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

My assessment will also take into account other factors including the item's materiality, political sensitivity, problems from previous years, findings from internal audit and changes in accounting practice and the Code. As a result, the work I undertake and the requests for information I make, may differ from year to year. However, I intend to provide the finance team with an outline timetable of when auditors will be reviewing which aspects of the financial statements.

Audit testing is undertaken with the objective that material misstatements in the accounts are identified. Materiality is fundamental to my audit approach and my opinion. Broadly speaking, I calculate headline materiality to set a tolerance level around the accuracy of the opinion that I issue. A material item within the financial statements is one which would affect the reader's view of the accounts.

Materiality is considered in relation to the Council's statement of accounts as a whole, as well as the individual items in the consolidated income and expenditure statement, balance sheet or other statements. Generally a matter will be material if knowledge of it would be likely to influence the user of the statement of accounts or distort the understanding of the accounts.

Headline materiality for this year's audit has been calculated at £1.3m and will be revised when I receive the 2011/12 financial statements. Matters in excess of the level at which issues are clearly considered to be trivial (£13k - but also to be updated) will be reported to the Performance and Audit Scrutiny Committee via the Annual Governance Report.

ISA (UK&I) 320 also requires me to set a performance materiality to use when assessing the risks of material misstatement and deciding the nature, timing and extent of audit procedures. I therefore use performance materiality (£1.17m - but to be updated when I receive the 2011/12 financial statements accounts) when:

- deciding which systems are material for documenting and understanding how the financial statements are prepared;
- identifying risks of materials misstatement that will require audit work and inclusion within my RAMx
- identifying items to test at the financial balance, transaction stream and disclosure note level; and
- calculating sample sizes for substantive tests of detail.

## Obtaining external confirmations

There will be instances where the most appropriate effective method of obtaining audit evidence is by obtaining external confirmations. External confirmations are most commonly used for to confirm balances. Examples of where I use them include:

- Bank balances and other information from bankers; and
- Property title deeds held externally, for example by solicitors or financiers.

If not already given, you will need to give permission to the appropriate third parties to release information which I will request.

## Reporting

I am required by auditing standards to report the results of my work to the Performance and Audit Scrutiny Committee as those charged with governance. I do this in the Annual Governance Report. This report will include only the significant findings identified from my audit work. I will report more detailed findings and recommendations from my audit of the financial statements in a separate final accounts memorandum addressed to management.

## What I expect from you and what you can expect from me

I have outlined to you my audit approach so you know what to expect from me and my audit team. To deliver an effective and efficient audit our respective teams need to work collaboratively. Table 9 outlines my expectations from you and what you can expect from me.

Table 9: **Joint working expectations**

Working effectively together as set out below will help deliver an effective and efficient audit

<b>Finance team actions</b>	<b>Audit team actions</b>
<p>Provide the complete set of financial statements, disclosures and notes and the Annual Governance Statement to auditors by 30 June in line with the statutory deadline.</p> <p>Prepare comprehensive high-quality and cross-referenced working papers to support all the financial statements and disclosures. Provide these in full at the final accounts set up meeting scheduled for mid/end June 2011.</p> <p>Working papers should ideally be provided in an electronic format.</p>	<p>Have quarterly update meetings with the Deputy Chief Finance Officer. Where proposed accounting treatment or updates to accounting policies etc. are prepared and available ahead of the post-statements audit, review and feedback any issues of concern to the Deputy Chief Finance Officer.</p>
<p>I recommend that you include all balances over £1m in the working paper files, with supporting documentation for any transactions over £1m. As part of my post statements audit I may request further 'drilling down' into transaction listings for testing. Finance staff should ensure that this information is kept and is readily available and that the audit trail is clear.</p>	<p>Select samples for detailed testing from transaction listings at the start of the post statements audit where possible in order that finance staff can obtain the evidence required.</p> <p>Plan to undertake early substantive testing on accounts receivable and accounts payable.</p>
<p>Provide access to key finance staff. Provide early warning of when key staff are unavailable.</p> <p>Quickly resolve audit queries and requests for further information (this would usually be within 2 working days). Should difficulties be experienced in obtaining the necessary information or resolving queries then this should be raised with the auditor as alternative procedures may be possible go gain the required assurance.</p>	<p>Provide a first draft of our final accounts workplan to help the Council plan staff availability to deal with queries arising during the course of our work.</p>
<p>Attend weekly meetings with the audit team leader to discuss audit queries and errors detected.</p>	<p>Attend weekly meetings with the Deputy Chief Finance Officer to discuss audit queries and errors detected. A tracker of all outstanding audit</p>

## Finance team actions

## Audit team actions

---

Clearly document agreed amendments to the accounts.

queries, errors and uncertainties arising from my work will be provided. My team and I will raise matters of urgency promptly. These would be issues that may have an adverse impact on the audit opinion or the Annual Governance Report.

---

Arrange for the Performance and Audit Scrutiny Committee to receive the auditors Annual Governance Report.

---

Agree all amendments to the accounts with the Deputy Chief Finance Officer and review these corrections.

---

Arrange for the adoption of the accounts and for all certificates and the Letter of Representation to be signed.

---

Prepare the Annual Governance Report for those charged with governance and discuss with officers before the Performance and Audit Scrutiny Committee meeting.

---

Provide audit opinion and certificate.

---

# Appendix 2 – Impact of the ISA Clarity Project

---

## **Journals**

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires us to review all material year-end adjustment journals. The team will discuss a suitable approach to this work at the forthcoming audit planning meeting. We reported some weaknesses around journal authorisation in our 2010/11 Annual Governance Report.

## **Related Party Transactions**

ISA (UK&I) 550 (Related parties) requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## **Accounting Estimates**

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures) requires us to look at your accounting estimates in detail. As part of the audit my team will request a list of these from you. We will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

We had difficulties obtaining the evidence to support some of the Council's 2010/11 accounting estimates.

## **Deficiencies in internal control**

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance and Management) was a new standard for 2010/11 onwards.

If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Performance and Audit Scrutiny Committee as those charged with governance.

# Appendix 3 – Independence and objectivity

---

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 10: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>



Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 4 – Basis for fee

---

In setting the fee, I have assumed the following.

- the risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11;
- the risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11;
- Internal Audit meets professional standards and undertakes appropriate work on all material systems and this is available for our review during our interim visit;
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements at the start of the financial statements audit;
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 5 – Glossary

---

## **Accounting statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of its policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Group accounts**

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Letter of assurance**

A letter of assurance is a specific request for information from one auditor to another.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Performance and Audit Scrutiny Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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

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

