

# Audit plan

Rutland County Council

Audit 2010/11

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**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Introduction

**This plan sets out the audit work that we propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

**1** This plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

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# 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 every audited body.**

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

**3** We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

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## Fee for the audit

### **The fee for the audit is £159,700 as indicated in my letter of 26 April 2010**

4 In my earlier letter I also noted that the fee had been subject to a one off subsidy for the 2010-11 audit relating to the costs of transition to IFRS. The fee has been subject to a further one off subsidy of 3.5% announced more recently by the Audit Commission. Both rebates have now been paid to the Council.

5 Rutland County Council is one of a small number of audited bodies which are not reflected in the Audit Commission's published fee scale and for which appointed auditors are required to determine the fee locally. In setting the fee we have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10 and no significant difficulties will arise in the course of the interim or final audit work;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS) and the restated 2009/10 accounts are available for review in March 2011;
- the Council will have implemented the improvements to internal controls recommended by Internal Audit as part of their 2009/10 financial systems audits;
- the material financial system key controls are operating effectively; and
- We are able to rely on Internal Audit's work on the payroll system and it is available for our review by 30 April 2011.

6 Where these assumptions are not met, we may be required to undertake additional work which is likely to result in an increased audit fee. If this is the case, We will discuss this first with the Strategic Director for Resources and issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions Rutland County Council could take to reduce its audit fees**

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. The planned fee is lower than that for 2009/10 and reflects the audit work required to address the risks identified. As in previous years, we will continue to work with staff

to identify any further specific actions that the Council could take and to provide ongoing audit support.

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# Auditors report on the financial statements

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

**9** We are required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**10** We will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**11** We need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We 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 specific risks

**We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

**12** The key risk common to all local government bodies this year is the application of International Financial Reporting Standards (IFRS) for the first time. The specific risks identified regarding this change are summarised in Table 1 below, together with other identified areas of concern. There are inherent risks around the closedown and accounts production process; the timetable is tight, some of the year-end procedures are complex and information is required from different council departments and external bodies. We will continue to liaise with officers regarding their proposals for ensuring an effective closedown and will discuss with them progress made.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>2010/11 is the first year that the code of practice for local government accounting is based solely on IFRS. Incorrect interpretation/adoption of IFRS could potentially lead to material misstatement within the financial statements.</p>	<p>We will review the restatement of opening balances for compliance with the IFRS 2010/11 Code of Practice. We plan, subject to being provided with the restated 2009/10 statements, to carry out this work in advance of the main financial statements audit so that any corrections or improvements can be incorporated into the published draft financial statements.</p>
<p>The Council continues to have a number of significant capital schemes in progress or expected to complete in 2010/11 (eg Catmose College Campus, Oakham CoE Primary School and the Rutland College development at Barleythorpe). The expenditure on these schemes and the asset values are material. The Council needs to ensure it correctly categorises and values the assets and has adequate arrangements for accounting for the relevant revenue and capital expenditure.</p>	<p>We will review the accounting for these schemes as part of our year end audit of the Plant, Property and Equipment reported in the Council's draft financial statements.</p>
<p>The Council has become a member of the Rutland County College Trust. The Council needs to make an</p>	<p>We will review the Council's assessment and, if necessary, carry out additional</p>

Risk area	Audit response
assessment of this arrangement and determine whether the Trust is an 'associate', for which additional group financial statements may be required.	audit work on the group financial statements.

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# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.**

**13** We can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**14** Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing may be carried out early.

- Review of accounting policies.
- Bank reconciliations
- Investments
- Year-end feeder system reconciliations
- Related party transactions
- IFRS restatement of opening balances

**15** Wherever possible, we seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, we expect to be able to use the results of the internal audit review of the payroll system and their follow up of the matters arising from their 2009/10 reviews.

**16** Where necessary we also seek to rely on the work of other auditors and experts (for example, a valuer or actuary), as appropriate, to meet our responsibilities. For 2010/11, we plan to rely on the work of the Pension Fund auditors in relation to the IAS19 Pension accounting entries and disclosures in the financial statements. We also plan to rely on the work of the Council's own actuary and external valuer where their work is used to prepare the accounts.

**17** We have not identified at this stage any audit risks regarding material areas of the Council's financial statements which require us to engage our own expert. We will though revisit this assessment if I identify any concerns regarding the reliability of the information provided to the Council by its experts (ie the valuer and/or actuary) and used to prepare its financial statements.

# Value for money conclusion

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

**18** This is based on two criteria, specified by the Commission, related to your 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.

**19** We will carry out the VFM audit work indicated as required through my initial risk assessment. Specific risks to consider include:

Table 2: **Specific risks**

Specific VFM Conclusion risks identified

Risk area	Audit response
<p>The Rutland County College Trust is acknowledged by officers and members to be a relatively high risk venture. The Council has committed to providing cash flow support over the early years of the business plan and is acquiring a replacement site to enable the college to relocate.</p>	<p>We will review the Council's arrangements for managing the financial risks associated with the Trust and for assuring itself that it is achieving value for money from its involvement.</p>
<p>In common with other other public bodies, the Council faces the significant challenge of managing the delivery of its priorities at a time of financial constraints and cuts in government grants.</p>	<p>We will discuss with officers the Council's arrangements for determining its medium term financial strategy.</p>
<p>The Council has continued to support a significant capital programme and key projects are in progress (eg the new Oakham CoE Primary School and the development of the acquired college site at Barleythorpe).</p>	<p>We will discuss with officers progress made in delivering the programme and its costs and funding.</p>

**20** I will keep my risk assessment under review and communicate with you further later in the year if I identify new specific risks.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. We are required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**21** The key stages in producing and auditing the financial statements are in Table 2.

**22** We will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**23** The audit team will meet with the key contact regularly during the audit and review the status of all queries. We can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
Control and early substantive testing	February/March 2011
Receipt of accounts	by 30 June 2011
Working papers available to the auditor	by 30 June 2011
Start of detailed testing	June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	by 30 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 4: **Audit team**

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	n-bellamy@audit- commission.gov.uk 0844 798 4057	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mike Norman Audit Manager	ma-norman@audit- commission.gov.uk 0844 798 4403	Manages and coordinates the different elements of the audit work. Key point of contact for the Finance team.

## Independence and objectivity

**24** We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which are required by auditing and ethical standards to be communicated to you.

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

## Meetings

**26** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

**27** We 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 of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**28** 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).

## Planned outputs

29 We will discuss and agree reports with the right officers before issuing them to the Audit and Risk Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

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# Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

## Assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10 and no significant difficulties will arise in the course of the interim or final audit work;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS) and the restated 2009/10 accounts are available for review in March 2011;
- you will inform us of significant developments impacting on the audit;
- the Council will have implemented the improvements to internal controls recommended by Internal Audit as part of their 2009/10 financial systems audits;
- the material financial system key controls are operating effectively; and
- We are able to rely on Internal Audit's work on the payroll system and it is available for our review by 30 April 2011.
- you provide:
  - good quality working papers and records to support the 2010/11 financial statements by end of June 2010;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.



## Appendix 2 Independence and objectivity

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

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

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

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

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

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

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

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

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

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# Appendix 3 Working together

## Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Our proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Strategic Director for Resources and/or Head of Business Support - resources	AM and/or Team Leader	Quarterly	General updates on audit issues plus audit plan, accounts progress and annual governance report
Audit and Risk Committee	DA and/or AM	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

## Sustainability

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

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

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

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

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

### **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 that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial 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 financial 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 in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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 in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

## **Remuneration report**

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

## Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

NHS bodies are required to publish a statement on internal control (SIC) with their financial statements. Specific guidance on the preparation of the SIC is issued by the Department of Health. The chief executive, as accountable officer, is required to sign the SIC on behalf of the board. The disclosures in the SIC are supported and evidenced by the body's assurance framework.

## Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

## Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.