

# Audit plan

Rutland County Council

Audit 2011/12



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# Introduction

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**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 Audit and Risk Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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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.

## Identifying audit risks

I need to understand the Authority 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 Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- 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 Authority's information systems.

## Identification of specific risks

I have considered the additional risks that are relevant to the audit of the accounting statements. There are inherent risks attached to the closedown and accounts production process; the timetable is tight, the process is dependant on a relatively small number of key staff, there are complex accounting judgements to be made and year-end adjustments which need to be carried out. In my 2010/11 Annual Governance Report I acknowledged that the accounts closure process had been challenging for all councils and reported that the matters arising from the audit had required us to do additional audit work and resulted in several changes to the draft 2010/11 financial statements. I recommended that the Council ensure it has effective arrangements in place for preparing its 2011/12 financial statements.

I have discussed the arrangements and proposals for 2011/12 with officers and at this stage of my audit planning I have not identified any significant risks of material misstatement which require me to carry out additional specific audit procedures.

In addition there are some new disclosure requirements this year, for example in relation to heritage assets. Whilst none of the new requirements are likely to be material in the context of the Council's accounts we will ensure our general audit testing covers these new requirements appropriately.

I will though continue to liaise with officers regarding the general closedown proposals and I will update my risk assessment as the audit progresses. If necessary I will provide a revised audit plan to a future meeting of the Audit and Risk Committee.

## Testing strategy

My audit involves:

- 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 1: Proposed work

	Review of internal audit	Controls and other systems testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Payroll	General Ledger Benefits Accounts payable & receivable Council Tax and NNDR Cash and Bank Investments and Loans	none	none	Investments and other non-current assets – ownership. Pension contributions.
Final visit	Annual Report and Opinion	none	Pensions assets and liabilities – auditor to the Leicestershire County Pension Fund.	Pensions liabilities and assets – the actuary to the Pension Fund (Hymans) and the Audit Commission’s own consulting actuary (PwC). Valuation of property, plant and equipment – the Council’s in-house valuation team and the Audit Commission’s own consulting valuer (Gerald Eve).	All material accounts balances and amounts. Year-end feeder system reconciliations.

## 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.

# Value for money

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

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

- securing financial resilience – focusing on whether the Authority 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 Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 2: **Significant risks**

Risk	Audit response
In common with 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.	I will discuss with officers the Council's arrangements for determining its medium term financial strategy. I will monitor the Council's budget performance and financial standing.
The Council has continued to support a significant capital programme and key projects are in progress or being developed (eg the refurbishment of the acquired college site at Barleythorpe).	I will discuss with officers the arrangements established for managing the programme. I will monitor progress made in delivering the programme and in controlling its costs and funding.

I will report the findings from my value for money conclusion work in my Annual Governance Report and Auditor's Report.

# Key milestones and deadlines

The Authority 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
Opinion: controls and early substantive testing	January to March 2012	none
Opinion: receipt of accounts and supporting working papers	by 30 June 2012 (date TBC)	none
Opinion: substantive testing	June to August 2012	none
Value for money conclusion – risk assessment and review	January to August 2012	none
Present Annual Governance Report at the Audit and Risk Committee	September 2012 (date TBC)	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

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

Table 4: **Audit team**

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	<a href="mailto:n-bellamy@audit-commission.gov.uk">n-bellamy@audit-commission.gov.uk</a> 0844 798 4057	Responsible for the overall delivery of the audit including quality of reports and signing the auditor's report.
Mike Norman Audit Manager	<a href="mailto:ma-@audit-commission.gov.uk">ma-@audit-commission.gov.uk</a> 0844 798 4403	Manages and coordinates the different elements of the audit work.

# Independence and quality

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## 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 1.

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

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**The fee for the audit is £143,730, as set out in my letter of 11 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £143,730 which represents a 10 per cent reduction on the audit fee for 2010/11.

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.

The scale fee 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).

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.

*The Audit Commission has committed to paying a rebate of £11,500 to the Council reflecting attainment of internal efficiency savings, reducing the net amount payable to the Audit Commission to £132,230.*

## Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. 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 the Strategic Director for Resources 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 its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As the proposed fee has been fixed by the Audit Commission and is 10 per cent lower than the previous year the opportunities for any reduction are limited. I will continue to work with staff to identify any specific actions that the Council can take to ensure the fee remains at a low level in the future.

## **Fees for non audit work**

In addition to the fee for the audit, the Audit Commission is able charge fees for the provision of non-audit services under the Audit Commission's advice and assistance powers. No non-audit work has been planned for 2011/12 so we do not expect to charge any fees.

## **Fees of grant certification work**

The Audit Commission will charges fees for certification of claims and returns, with the hourly fee rate set annually. The estimated fee for 2011/12 certification work is £15,000 (£18,700 in 2010/11) although the actual fee will depend on the work required and the matters arising.

# Appendix 1 – 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 5: **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>	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.

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 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is no higher than that identified for 2010/11 and the Council has established effective arrangements to complete its year-end closedown and prepare the draft financial statements.
- Internal controls are operating effectively.
- I secure the co-operation of other auditors.
- There are no new significant accounting or reporting requirements for 2011/12.
- 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 we are able to rely on any relevant completed work.
- The Authority 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 by the agreed date;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- 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 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority 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 Authority 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 Authority's systems of internal control that supports the achievement of the Authority's 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.

### **Internal control**

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

## **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 Authority. This term includes the members of the Authority and its Audit and Risk 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 Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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

