

Audit plan

Bath and North East Somerset Council

Audit 2011/12



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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 Corporate Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

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 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

Significant risks are defined in the auditing standards which govern my work. They are material risks that arise from changes in the accounting framework, operational changes at the authority or from changes in the overall economic conditions. I have considered the national and local context and identified additional risks that are relevant to the audit of the accounting statements. I have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Financial spending pressures</p> <p>The level of savings public bodies are required to make is unprecedented. The Council needs to achieve savings of £23m in 2011/12 and 2012/13 with similar levels over the coming years. This along with other pressures arising from the economic downturn such as pressures on service provision and potential falling revenues puts pressure on the Council to achieve its financial plans.</p> <p>Whilst I have assessed the overall control environment as strong and the overall level of risk as low, the unprecedented level of savings increases the risk of financial misreporting in the accounting statements.</p>	<p>I will continue to assess and monitor the control environment including management's controls over the medium term financial plans and savings programmes. I will also focus on management controls over those areas of the accounting statements that are considered to present higher levels of risk for example:</p> <ul style="list-style-type: none"> • Journals; • Accounting estimates • The allocation of expenditure between capital and revenue; and • Changes in accounting policy that may impact on the financial position. <p>I will also consider the in-year financial performance of the Council against the year-end financial position to identify any unusual or unexpected transactions.</p>
<p>Transfer of social care provision to a community interest company</p> <p>The Council transferred its social care provider to a community interest company on 1 October 2011. At the same time the B&NES Primary Care Trust transferred its community health provider to the same company.</p>	<p>I will consider the controls operated by the Council during the year and undertake detailed tests on the cut off of transactions at 30 September 2011.</p> <p>I will test the full-year expenditure to ensure it is correctly classified as:</p>

Risk	Audit response
<p>Related expenditure in the Councils accounting statements will be reported as commissioned expenditure for the second half of the year. Supplier invoices and payroll costs will only be included on the Council's systems for the first half of the year. The Council undertook due diligence on the changes however, the system changes, the transfer of staff and the change in accounting part way through the year presents risks that expenditure may not be accounted for correctly..</p>	<ul style="list-style-type: none"> ■ direct costs for services provided by the Council until 30 September 2011; and ■ expenditure for commissioned services from 1 October 2011.
<p>Heritage Assets</p> <p>The 2011/12 Accounts Code adopts the requirements of Financial Reporting Standard (FRS) 30, 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. For B&NES this is likely to include your Roman Baths and a number of other assets in Bath.</p> <p>The valuation of heritage assets presents a number of challenges which will impact on the way they are reported in the accounts.</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 the Council has accounted for heritage assets in accordance with the requirements and the accounting statements are materially fairly stated.</p>
<p>Service organisation</p> <p>Cash collection and banking of monies from Council car parks and leisure sites was contracted to Bristol City Council in January 2011. Under this contract Bristol provide information for the Council's accounting systems. There is a risk that, Bristol City Council, the service organisation, does not provide the correct information for the Council's financial statements.</p>	<p>Review of contractual arrangements, including internal audit coverage, and management controls such as monthly review of financial performance.</p> <p>Review of management oversight of reconciliations between expected information from the service organisation and actuals, including exception reports.</p> <p>Tests of detail, including sample checking of items of account produced by the service organisation to source documentation.</p>

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 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**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Cash collection Accounts payable and accounts receivable and payroll	General Ledger	Assurances from KPMG on controls operated over payroll for schools which use the Wiltshire system. Assurances from Grant Thornton over controls operated in the cash collection team of Bristol City Council.		Testing of transactions covering the first nine months of the year.
Final visit			Pensions assets and liabilities – my work as the auditor to Avon Pension Fund	Pensions liabilities and assets – Mercer's and our own consulting actuary Valuation of property, plant and	All material accounts balances and amounts Year-end feeder system

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
				equipment – in-house Valuers and our own national advice from Gerald Eve	reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

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 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 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 3: Significant risks

Risk	Audit response	Reporting
Arrangements to support delivery of the change programme and savings plans The Council faces considerable financial and organisational challenges, including the transfer of schools to foundation status, the on-going rationalisation of offices, and severe financial	I will continue to monitor the arrangements for managing this programme, including the governance of the programme, the methodologies used to support specific reviews and the input of resources to maximise the outcomes. I will monitor the delivery of the Council's savings plans, and consider the level of recurrent vs non-recurrent savings being	To be reported with the annual governance report

Risk	Audit response	Reporting
<p>pressures. In response the Council has an ambitious change programme that aims to achieve efficiencies and to release cost savings.</p>	<p>delivered and the impact this has on the financial resilience of the Council.</p>	
<p>Commissioning arrangements for social care Following the transfer of social care to a community interest company, the Council will need to develop its commissioning arrangements to ensure the on-going delivery and development of services under the new contract arrangements.</p>	<p>I will review the Council's arrangements for monitoring performance under the contract.</p>	<p>To be reported with the annual governance report</p>

Key milestones and deadlines

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

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	March 2012	Interim memorandum of matters arising if material issues identified
Opinion: receipt of accounts and supporting working papers	June 2012	
Opinion: substantive testing	August 2012	
Present Annual Governance Report at the Corporate Audit Committee	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 5: **Audit team**

Name	Contact details	Responsibilities
Wayne Rickard District Auditor	w-rickard@audit-commission.gov.uk 0844 798 1208 0788 1832360	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Chris Hackett Audit Manager	c-hackett@audit-commission.gov.uk 0844 798 8760 07760 1173187	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Financial Services.
Emma Wainwright Principal Auditor	e-wainwright@audit-commission.gov.uk 0844 798 8784 07875 677232	Responsible for delivery of details aspects of the audit.

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 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) 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 £273,398. This was discussed at the meeting of the Corporate Audit Committee held in February 2011. The fee was confirmed in my letter of 5 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £273,398 which represents a ten per cent reduction on the planned audit fee for 2010/11 which was £303,776.

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.

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 Director of Financial Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

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 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
Audit	273,398	303,776	10 per cent
Rebates to audit fee agreed nationally by the audit commission	21,872	26,863	19 per cent
Total net fee	251,526	276,913	9 per cent

* Work on the certification of claims for 2010/11 was on-going until December 2011. The final fee will be reported in February 2012. No additional non audit work was undertaken in 2011/11 and none is currently planned for 2011/12.

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 7: **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 2 – 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. For example internal controls are operating effectively.
- 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.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- 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 by June 2012;
 - 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 3 – 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 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 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 system of internal control, it supports the achievement of the Council'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

This is the whole system of controls, financial and otherwise, that the Council establishes. The aim is 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 Council. This term includes the members of the Council and its Corporate Audit 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.

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0844 798 7070

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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.

