

Audit plan

Bath and North East Somerset 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 I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan follows 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 I undertake my audit work to meet these responsibilities.

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

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

4 I have provided these documents to the Corporate Audit Committee. I can provide extra copies or links to the documents if required.

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Fee for the audit

The fee for the audit is £303,776, as set out in my letter of 16 April 2010.

5 I analyse the fee in line with my letter of 16 April 2010.

Table 1: **Details of 2010/11 fee**

The fee includes the opinion on the accounts and VFM work

Audit area	Planned fee
Planning and reporting	£34,360
Financial statements	£188,982
VFM conclusion	£80,434
Audit fee	£303,776

6 The fee reflects extra work for International financial reporting standards (IFRS) and new auditing standards. In recognition of the financial pressures facing local authorities the Audit Commission is absorbing these costs. In December 2010 the Council will receive a refund from the Audit Commission of £16,776. This means the actual fee for 2010/11 is the same as the previous year.

7 I also undertake the audit of grant claims. I charge for my work on claims according to the number of days the audit takes. The estimated total fee is £48,400.

8 The Audit Commission has changed the work I am required to do to give the VFM conclusion. The Audit Commission intends to consult on the fee implications of this. The consultation has been delayed because of the decision to abolish the Audit Commission.

9 In setting the fee, I have assumed that:

- the risk to the audit of accounts is consistent with that for 2009/10;
- 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 accounts to comply with IFRS; and
- Internal Audit undertakes suitable work that is available for our review by 30 April 2011.

10 Where these assumptions are not met, I will need to undertake added work that is likely to result in an increased audit fee. Where this is the case,

I will discuss this first with the Director of Financial Services and then issue an updated plan recording any revisions to the risk and the impact on the fee.

11 More information on the basis for the fee is in Appendix 1.

Specific actions the Council could take to reduce it's audit fees

12 The Audit Commission requires me to inform the Council of actions it can take to lessen its audit fees. As in previous years, I will work with staff to identify any specific actions the Council can take.

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Auditors report on the financial statements

I will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

13 I am 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

14 I will apply materiality in both planning and performing the audit, in evaluating the impact of any identified misstatements, and in forming my opinion. Appendix 4 provides a glossary of terms including an explanation of materiality.

Identifying opinion audit risks

15 I need to understand the audited body to identify any risk of material misstatement (whether caused by fraud or error) in the financial 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; and
- Assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit.

Identification of specific risks

16 I have considered the risks that are relevant to the current opinion audit and have set these out below.

Table 2: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>International Financial Reporting Standards (IFRS)</p> <p>Officers will prepare the accounts for the first time under IFRS. Thus the accounts will include added and changed disclosures including:</p> <ul style="list-style-type: none"> ■ Showing prior year information for most of the entries in the accounts; ■ A comprehensive income and expenditure account combining the previous income and expenditure account and statement of total recognised gains and losses; ■ Recognising arrangements that contain a lease; ■ Changes in accounting for leases for land; ■ Reporting capital grants differently; ■ Accounting for the different components of fixed assets. For example charging the annual cost for consumption of assets such as central heating or lifts differently from the main building; ■ Reporting movements in the value of investment properties differently; and ■ Presenting the cash flow statement differently. 	<p>I will review the restated 2009/10 accounts during the interim audit.</p> <p>I will undertake tests of detail on the new disclosures.</p>
<p>Capital Accounts</p> <p>My previous audits have identified inconsistencies in the amounts reported between fixed assets and capital reserves. This links to difficulties running reports from the fixed asset register. I also note six schools are transferring during 2010/11 to Academy status which could impact on the capital accounts.</p>	<p>I will undertake detailed tests on fixed assets and capital reserves.</p>

17 In my annual governance report on the 2009/10 accounts, I identified the need to keep enough finance staff, (dedicated to the preparation of the accounts), with suitable skills as a potential risk to the satisfactory preparation of the accounts. Officers have plans to address this risk. I am not identifying this as a specific risk at this stage but I will review it during the year.

Testing strategy

18 Based on the risks identified above I will produce a testing strategy. This will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

19 I can carry out testing before and after the draft financial statements are prepared (pre- and post-statement testing).

20 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early:

- Review of accounting policies;
- Bank reconciliation;
- Year-end feeder system reconciliations; and
- Related party transactions

Where I identify other possible early testing, I will discuss it with officers.

21 Wherever possible, I will seek to rely on the work of internal audit to help meet my responsibilities. For 2010/11, I plan to rely on internal audit's work on debtors and creditor payments. I will continue to liaise with internal audit through my regular meetings to identify relevant work.

22 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas:

- The work of the external auditor to Wiltshire Council to provide assurance on the payroll costs of eight schools that use Wiltshire's systems; and
- In my capacity as the auditor to Avon Pension fund I will be providing assurance on the Council's share of the assets and liabilities relating to the Fund.

23 I also plan to rely on the work of experts in the following areas:

- The Council's valuer in respect of the amounts reported in the accounts for land buildings; and
- Gerald Eve, my own expert to provide advice on fixed asset values.

Value for money conclusion

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

24 The Commission wrote to all audited bodies on 9 August on the new approach to value for money audit work.

25 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.

Value for money risks

26 I will up-date my risk assessment for the VFM conclusion later in the year and communicate with you then.

Key milestones and deadlines

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

27 Table 3 sets out the key stages in producing and auditing the financial statements.

28 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee depends on the timely receipt of accurate working papers.

29 Every week, during the audit of the accounts in the summer, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable for financial statements audit**

Action	Date
Control and early substantive testing	November to March 2011
Receipt of accounts	June 2011
Sending audit working papers to the auditor	June 2011
Start of detailed testing	July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	September 2011

30 I will undertake my VFM work between November and May 2011.

The audit team

Table 4 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Wayne Rickard District Auditor	w-rickard@audit-commission.gov.uk 0844 798 1208	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Chris Hackett Audit Manager	c-hackett@audit-commission.gov.uk 0844 798 8760	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Financial Services.
Steve Ballard Team Leader	s-ballard@audit-commission.gov.uk 0844 798 8784	Responsible for detailed delivery of audit work.

Independence and objectivity

31 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

32 I comply with the ethical standards issued by the APB and with the Commission's requirements about independence and objectivity as summarised in Appendix 2.

Meetings

33 My audit team will ensure they have knowledge of your issues to inform my risk-based audit through regular liaison with key officers. I propose several regular meetings detailed in Appendix 3.

Quality of service

34 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 of Professional Practice at the Audit Commission (c-westwood@audit-commission.gov.uk). He will look into any complaint quickly and do what he can to resolve the problem.

35 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

36 My team will discuss and agree reports with the officers before issuing them to the Corporate Audit 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	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 starts with identifying 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 results of previous and continuing audit work;
- Interviews with Council officers; and
- Liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- The risk to the audit of the financial statements is not significantly different from that identified for 2009/10;
- You will inform me of significant developments impacting on the audit;
- Internal Audit meets the proper professional standards;
- Internal Audit undertakes suitable work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of my audit;
- You provide:
 - good quality working papers and records to support the financial statements by June 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports.

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

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission 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 also 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 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 Assurance 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. Also that they ensure 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 added 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 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 they have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Financial Services and Finance Team Leader	Audit Manager and Team Leader	Monthly meetings and weekly in the summer	To cover: <ul style="list-style-type: none"> ■ general update; ■ audit planning issues; and ■ progress with the audit.
Corporate Audit Committee	District Auditor and Audit Manager, with Team Leader as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> Audit Plan Annual governance report Other issues as appropriate
Director of Resources and Support Services	District Auditor and Audit Manager	Quarterly	High level audit issues including VFM and accounts opinion
Internal Audit	Audit Manager and Team Leader	Quarterly	Planning and coordination of work
Monitoring officer	Audit Manager	Half Yearly	To discuss audit risks.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I 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'.)

Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. 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.

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 councils, those charged with governance, for the purpose of complying with auditing standards, are the full 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, other than probation boards and trusts, 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.

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