

TAUNTON DEANE BOROUGH COUNCIL

CORPORATE GOVERNANCE COMMITTEE 12 MARCH 2012

Report of the Strategic Director (Shirlene Adam).

This matter is the responsibility of the Leader of the Council, Cllr John Williams

AUDIT COMMISSION AUDIT PLAN 2011/12

Executive Summary

This report introduces the Audit Commissions Audit Plan for 2011/12. This is prepared by our external auditors, the Audit Commission (and set out in an Appendix to this report).

The report, which will be presented by the Audit Commission, summarises their approach to the main audits and sets out their indicative fee position.

1. Background

- 1.1 The Audit Commission has finalised its Audit Plan for 2011/12 – as set out in Appendix 1.

2. Financial Issues / Comments

- 2.1 The indicative audit fee of £135,128 is within the Councils budget for 2012/13.
- 2.2 The report highlights what the Audit Commissions view as “risk areas” for the Council – and these will not be a surprise for Members. The Councils Corporate Risk Register, and Internal Audit Plan for 2012/13 also reflect these issues.

3. Legal Comments

- 3.1 There are no legal implications from this report.

4. Links to Corporate Aims

- 4.1 No direct implications.

5. Environmental and Community Safety Implications

- 5.1 No direct implications.

6. Equalities Impact

- 6.1 No implications.

7. Risk Management

- 7.1 Any risks identified will feed in to the corporate risk management process.

8. Partnership Implications

- 8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) will take the issues flagged in this report into account when identifying the areas of risk to be audited next year.

9. Recommendation

- 9.1 Members are requested to note the Audit Plan 2011/12 from the Audit Commission.

Contact Officers:

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Audit plan

Taunton Deane Borough 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 Governance 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 audit risks

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

Table 1: **Audit risks**

Risk	Audit response
<p>Significant risk</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012 when Taunton Deane estimates that it will need to borrow a further £85 million.</p> <p>Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>Review of management oversight of HRA reforms and transactions required by the Council.</p> <p>Tests of detail on the settlement payment or receipt.</p>
<p>Specific risk</p> <p>In each of the last two years, I have found weaknesses in financial system controls which have required me to undertake additional audit testing to gain satisfactory assurance that there was no material misstatement. I have recommended improvements to the Council's controls.</p>	<p>I will review the financial system controls to determine whether they are operating.</p>

Group accounts

The Council produces group accounts to take into account its investment in Tone Leisure. The Council accounts for this relationship as an associate (equity accounting) which means that it shows its proportion of the net surplus/deficit of Tone Leisure in its group accounts. The net surplus/deficit is not material for my opinion. I do not need to ask the auditor of Tone Leisure (AC Mole) to undertake any further audit procedures for the purposes of my opinion.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of key controls (General Ledger) and selected key controls of material systems which we reported in 2010/11 had not operated effectively;
- reliance on the work of other auditors (the auditor of the Somerset CC Pension Fund);
- reliance on the work of experts (Actuary to the Somerset CC Pension Fund and the Council's Valuer for property asset valuation and impairment); and
- some 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	General Ledger and any Internal Audit testing of key controls that had not operated effectively in 2010/11. Review of all Internal Audit reports for all material systems.	General Ledger Selected key controls (which did not operate in 2010/11) for the following systems Purchase ledger Sales ledger DLO			To be determined once I am able to assess the level of reliance I can place on the Council's key controls.

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
		Car parks Housing benefits Council Tax			
Final visit	Annual report and opinion		Pensions assets and liabilities – auditor to the Somerset CC Pension Fund	Pensions liabilities and assets – Somerset CC Pension Fund and our own consulting actuary Valuation of property, plant and equipment – the Council's Valuer	Year end cut-off All material accounts balances and amounts Year-end feeder system 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 risk that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response
The Council plans to borrow £85 million on 28 March 2012 for the self financing of the HRA. This is a very significant amount of money in comparison to the total income in the HRA in 2010/11 of £21.2 million.	<p>I will review the key assumptions in the Council's HRA business plan 2012- 2042 and how it has modelled the repayment of this debt. I will also review the assurances that it has obtained from financial and property advisors.</p> <p>I will assess the implications for my conclusion on the Council's financial resilience.</p>

Key milestones and deadlines

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

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

Activity	Date	Output
Opinion: controls and early substantive testing	January – March 2012	
Opinion: receipt of accounts and supporting working papers	June 2012	
Opinion: substantive testing	July to September 2012	
Value for money (VFM)	February – June 2012	VFM conclusions
Present Annual Governance Report at the Corporate Governance 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
Stephen Malyn District Auditor	s-malyn@audit-commission.gov.uk 07733 003480	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Peter Lappin Audit Manager	p-lappin@audit-commission.gov.uk 07909 930437	Manages and coordinates the different elements of the audit work. Key point of contact for the Strategic Director and Financial Services Manager.
Rachel Bishop Team Leader	r-bishop@audit-commission.gov.uk 07966 927718	Undertakes and supervises day-to-day delivery of audit programme.

Independence and quality

Independence

One of my team has a relationship with an IT contractor who is working on a project refresh for South West One. The IT contractor is not involved in any finance activity. This member of my audit team will not be involved in any review of the contract with South West One or the IT replacement project.

I am satisfied that this provides an adequate safeguard for me to 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 1.

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 net audit fee payable by the Council is £102,128.

The scale fee for the audit is £111,008, as set out in my predecessor's letter of 8 April 2011. In June 2011, the Audit Commission announced a rebate of 8 per cent or £8,880 bringing the fee down to £102,128.

The audit fee

The Audit Commission has set a scale audit fee of £111,008 which represents a 5 per cent reduction on the planned audit fee for 2010/11 (£116,850).

Apart from the national research and reports by the Audit Commission, 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 Financial 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 Strategic Director, Shirlene Adam and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee. In the two previous years, I have undertaken additional audit tests because of control weaknesses and this resulted in additional fees. I have not planned for additional fee in 2011/12 although I will re-assess following my review of systems controls.

Total fees payable

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

- certification of claims and returns;
- responding to representations and objections raised by local government electors; 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 in the letter of 8 April 2011	2010/11 actual	Variance
Audit (before rebates)	£111,008	£116,850	5% reduction in audit fee
Additional fee for testing of transactions because of weaknesses in controls in non pay expenditure, car park income, DLO expenditure. Additional controls testing following changes to creditor payments		£10,000	Additional work reported to the Corporate Governance Committee.
Certification of claims and returns	£33,000	£31,869	The original estimate for 2010/11 was £34,250.

	2011/12 proposed in the letter of 8 April 2011	2010/11 actual	Variance
Total fee for audit and certification of claims	£144,008	£158,719	
Non-audit work	0	£1,785	Housing challenge
Rebates	(£8,880)	(£9,232)	Audit Commission rebates
District Auditor time spent on challenge work		£1,000	objection from elector to the accounts regarding South West One
Total payable to Audit Commission	£135,128	£152,272	

Rebates

As the Audit Commission winds down there have been lower costs. Rebates will be notified to the Council by the Audit Commission..

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 and that weaknesses in financial system controls found in the two previous years do not occur in 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.
- 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 at the time of submitting the statements for audit;
 - 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

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

Annual Governance Report

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

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of 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.

Group accounts

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

Internal control

The whole system of controls, financial and otherwise, that the 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 Council. This term includes the members of the Council and its 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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- any director/member or officer in their individual capacity; or
- any third party.

