

## **TAUNTON DEANE BOROUGH COUNCIL**

### **CORPORATE GOVERNANCE COMMITTEE 1<sup>st</sup> MARCH 2011**

#### **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 2010/11**

##### **Executive Summary**

This report introduces the Audit Commissions Audit Plan for 2010/11. 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 2010/11 – as set out in Appendix 1.

#### **2. Financial Issues / Comments**

- 2.1 The indicative audit fee of £xx is within the Councils budget for 2011/12.
- 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 2011/12 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 2010/11 from the Audit Commission.

**Contact Officers:**

|   |  |
|---|--|
| Shirlene Adam<br>Strategic Director<br>01823 356310<br><br>s.adam@tauntondeane.gov.uk | Maggie Hammond<br>Strategic Finance Officer<br>01823 358698<br><br>m.hammond@tauntondeane.gov.uk |
|---|--|

# Audit plan

---

Taunton Deane Borough Council

Audit 2010/11

**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.**

# Contents

|   |           |
|---|-----------|
| <b>Introduction</b> .....   | <b>2</b>  |
| <b>Responsibilities</b> .....   | <b>3</b>  |
| <b>Fee for the audit of financial statements</b> .....                                      | <b>4</b>  |
| Specific actions Taunton Deane Borough Council could take to reduce its<br>audit fees ..... | 4         |
| <b>Auditors report on the financial statements</b> .....                                    | <b>5</b>  |
| Materiality .....   | 5         |
| Identifying opinion audit risks.....  | 5         |
| <b>Identification of specific risks</b> .....   | <b>6</b>  |
| Value for money risks .....   | 6         |
| <b>Testing strategy</b> .....   | <b>7</b>  |
| <b>Value for money conclusion</b> .....   | <b>8</b>  |
| <b>Key milestones and deadlines</b> .....   | <b>9</b>  |
| <b>The audit team</b> .....   | <b>10</b> |
| Independence and objectivity .....  | 10        |
| Meetings .....  | 10        |
| Quality of service .....  | 11        |
| Planned outputs.....  | 11        |
| <b>Appendix 1 Basis for fee</b> .....   | <b>12</b> |
| Assumptions .....   | 12        |
| <b>Appendix 2 Independence and objectivity</b> .....  | <b>13</b> |
| <b>Appendix 3 Working together</b> .....  | <b>15</b> |
| Meetings .....  | 15        |
| Sustainability.....   | 16        |
| <b>Appendix 4 Glossary</b> .....  | <b>17</b> |

# Introduction

1 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.

2 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

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

# Responsibilities

**3** 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.

**4** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and my audit work is undertaken in the context of these responsibilities.

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

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

## Fee for the audit of financial statements

6 The fee for the audit is £116,850, as indicated in my letter of 6 April 2010, with the element for the financial statements being £85,290.

7 In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. The rebate for Taunton Deane is £7,112.

8 In addition, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation had been delayed.

9 In December, the Commission published its proposals to issue a further rebate for district councils of 1.5 per cent or around £1,800 for Taunton Deane.

10 In setting the fee, I have assumed that:

- my review of financial systems and controls provide assurance that these have been operating effectively for the whole of 2010/11;
- good quality working papers will be supplied to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for my review by 28 February 2011.

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

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

### **Specific actions Taunton Deane Borough Council could take to reduce its audit fees**

13 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.



# Auditors report on the financial statements

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

**15** 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

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

## Identifying opinion audit risks

**17** As part of my audit risk identification process, I need to fully understand the audited body to identify any risk of material misstatement (whether due to 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;
- 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 information systems.

## Identification of specific risks

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

---

Table 1: **Specific risks**

Specific opinion risks identified

| <b>Risk area</b>   | <b>Audit response</b>  |
|--|--|
| In 2009/10 the Council introduced a new financial system, SAP which proved very challenging. Key financial controls did not operate throughout the year.   | I will review the systems and controls and seek to place reliance upon these for 2010/11.<br><br>Where I identify key controls are not operating effectively, I will undertake additional year end testing of transactions and of reconciliations. |
| The introduction of international financial reporting standards (IFRS) for 2010/11 onwards will entail the Council addressing a number of complex issues. The change will entail the re-stating of the 2009/10 closing balances into the new format. | I will work closely with officers to ensure that sufficient information is available at an early stage to re-state the 2009/10 closing balances into the IFRS form.  |

---

### **Value for money risks**

**19** I will undertake my risk assessment for the vfm conclusion later in the year and communicate with you further then.

# Testing strategy

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

**21** My testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).

**22** 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.
- Investments – ownership.
- Year-end feeder system reconciliations.

Where other early testing is identified as being possible, this will be discussed with officers.

**23** Wherever possible, I seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Main Accounting System
- Creditors
- Debtors
- Payroll
- Housing and Council Tax Benefits
- National Non-Domestic Rates
- Council Tax
- Capital Accounting

However, as noted in table 1 above, Internal Audit has identified widespread weaknesses in the operation of controls during the year which may necessitate additional audit procedures. If so, I will follow the procedure set out in paragraph 11 above to agree with you the additional fee required

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

- the Valuer for the valuation of non current assets; and
- the Actuary for the valuation of Taunton Deane's share of the pension scheme's assets and liabilities.

# Value for money conclusion

**25** I am required to give a statutory VFM conclusion on the Council's arrangements to ensure economy, efficient and effectiveness.

**26** 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.

**27** I will plan a programme of VFM audit work based on my risk assessment.

## Key milestones and deadlines

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

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

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

**31** Every week, during the audit, my team will meet with the key contact and review the status of all queries. If appropriate, they will meet at a different frequency depending on the need and the number of issues arising.

---

Table 2: **Proposed timetable**

| Activity   | Date                   |
|--|------------------------|
| Control and early substantive testing                                  | February to April 2011 |
| Receipt of accounts  | 30 June 2011           |
| Sending audit working papers to the auditor                            | 18 July 2011           |
| Start of detailed testing  | 18 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                           | By 30 September 2011   |

# The audit team

32 The key members of the audit team for the 2010/11 audit are shown in the table below.

Table 3: **Audit team**

| Name   | Contact details  | Responsibilities  |
|--|--|---|
| Brian Bethell<br>District<br>Auditor                     | <a href="mailto:b-bethell@audit-commission.gov.uk">b-bethell@audit-<br/>commission.gov.uk</a><br>0844 798 8741<br>07887 825584 | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive. |
| Peter Lappin<br>Audit<br>Manager                         | <a href="mailto:p-lappin@audit-commission.gov.uk">p-lappin@audit-<br/>commission.gov.uk</a><br>07909 930437                    | Manages and coordinates the different elements of the audit work. Key point of contact for the Strategic Director.  |
| Rachel<br>Bishop<br>Principal<br>Auditor/<br>Team Leader | <a href="mailto:r-bishop@audit-commission.gov.uk">r-bishop@audit-<br/>commission.gov.uk</a><br>0844 798 5609<br>07966 927718   | Undertakes and supervises day to day delivery of audit programme  |

## Independence and objectivity

33 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.

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

## Meetings

35 The audit team will maintain knowledge of your issues to inform my risk-based audit through regular liaison with key officers. My proposals are set out in Appendix 3.

## Quality of service

**36** 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, 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.

**37** 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

**38** Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

---

Table 4: **Planned outputs**

| Planned output   | Indicative date |
|--|-----------------|
| Opinion audit plan   | February 2011   |
| Annual governance report                                       | September 2011  |
| Auditor's report giving an opinion on the financial statements | September 2011  |
| Final accounts memorandum                                      | October 2011    |

---

## 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 my audit responsibilities and reflecting this in the audit fees.

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

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

### Assumptions

In setting the fee, I have assumed that:

- my review of financial systems and controls provide assurance that these have been operating effectively for the whole of 2010/11;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of my audit;
- good quality working papers and records will be provided to support the financial statements at the start of the audit;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

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



## Appendix 2 Independence and objectivity

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

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

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

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee 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 Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit 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 five 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.

## Appendix 3 Working together

### Meetings

The audit team will maintain knowledge of your issues to inform my risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

| Council officers               | Audit Commission staff   | Timing   | Purpose  |
|--------------------------------|--|--|--|
| Strategic Director             | Audit Manager and Team Leader                                    | January, March /April, July, September, November               | January/February - audit plan<br>March/April - results controls testing/IFRS restatement<br>July and August - accounts progress<br>September - annual governance report<br>November - housing benefits |
| Financial Services Manager     | Audit Manager and Team Leader (TL)                               | Monthly and each week during the audit of financial statements | Update on audit issues - IFRS, controls, substantive testing of balances.  |
| Corporate Governance Committee | District Auditor, Audit Manager, with Team Leader as appropriate | As determined by the Committee                                 | Formal reporting of:<br>Audit Plan<br>Annual governance report<br>Annual Audit Letter<br>Other issues as appropriate   |

## Sustainability

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

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

## Appendix 4 Glossary

### **Annual audit letter**

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

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

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

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

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

## **Internal control**

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

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

## **Members**

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

## **Remuneration report**

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

## **Annual Governance Statement**

Local government bodies are required to publish an annual governance statement with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the AGS are supported and evidenced by the body's assurance framework. The AGS 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 local government bodies, 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.

Audit committees are not mandatory for local government bodies. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946