

Audit plan

Maidstone Borough Council

Audit 2011/12



Contents

- Introduction.....3
- Accounting statements [and Whole of Government Accounts]4
- Value for money.....8
- Key milestones and deadlines11
- The audit team12
- Independence and quality13
- Fees14
- Appendix 1 – Independence and objectivity16
- Appendix 2 – Basis for fee.....18
- Appendix 3 – Glossary19

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.

I am pleased to present to you our Audit Plan. This includes our analysis of key risks (for the financial statements audit and the value for money conclusion) based on discussions with management and a review of key documents of the Authority; our audit strategy; and planned reporting timetable. Discussion of this plan with you ensures that we understand your concerns and you are clear on the intended scope of the audit, two key elements to ensure that we provide you with a high quality audit service.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit & 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.

International Standards of Auditing require auditors to undertake sufficient testing to be satisfied for all material classes of transactions and balances that the following assertions are met.

Occurrence	Transactions and events that have been recorded have occurred and relate to the Authority.	Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Completeness	All transactions and events that should have been recorded have been recorded.	Existence	Assets and liabilities exist.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.	Rights and obligations	The Authority holds or controls the rights to assets and liabilities are the obligations of the Authority
Cut off	Transactions and events have been recorded in the correct accounting period.	Valuation and allocation	Assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

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. Materiality can be defined as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.’

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 and understanding your business risks, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing your internal control arrangements, 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 and specific risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements.

Table 1: **Significant and specific risks**

Risk	Audit response
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements could be materially misstated.</p> <p>(significant risk)</p>	<p>Review of controls over establishing estimates, including arrangements for instructing your valuer and controls over information provided to valuer.</p> <p>Procedures for reliance on the work of the valuer.</p> <p>Tests of detail on valuations and associated depreciation calculations</p>
<p>Heritage assets</p> <p>The 2011/2012 Code adopts the requirements of FRS 30 Heritage Assets. As a result where information on cost or value is available heritage assets must be reported on the balance sheet and accounted for in accordance with the Code . Disclosures are required for all heritage assets, regardless of whether they are recognised on the balance sheet or not. Additional disclosures are required for those heritage assets recognised on the balance sheet. Adopting the heritage assets requirements of FRS 30 in the 2011/12 Code amounts to a change in accounting policy.</p>	<p>Review of action taken by the Authority to identify heritage assets.</p> <p>Tests of detail on asset classification and compliance with the Code in respect of disclosure requirements.</p>
<p>Capital accounting</p> <p>One of the most complex areas for implementation of IFRS in 2010/11 was capital accounting. We identified a number of errors in this area during our audit and this remains a risk for 2011/12.</p> <p>(specific risk)</p>	<p>We will review all material capital accounting entries for compliance with IFRS requirements.</p>

Testing strategy

Where appropriate, my audit will:

- review and reperform the work of your internal auditors;
- test of the operation of key controls;
- rely on the work of other auditors in accordance with international standards of auditing;
- evaluate and rely on the work of experts you engage and our own experts; and
- involve substantive tests of detail of transactions and amounts.

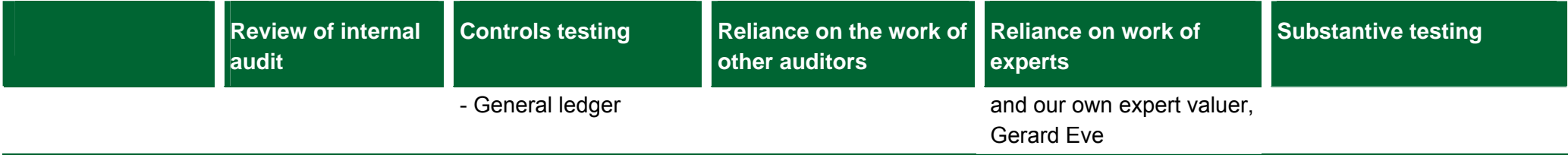
I have sought to:

- 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 audit visits (January and March 2012)	Controls testing for - NNDR - Housing benefits - Cash & bank	Confirm the key controls for all finance systems	Our review of the relevant systems work undertaken by Internal Audit		
Final visit (July-August 2012)		Completion of testing for - Treasury management - Cash & bank - Journal processing	Pensions assets and liabilities – auditor of Kent Local Government Pension Fund.	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary Valuation of land and buildings – Council valuer	All material accounts balances and amounts and year-end accounting 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 specific risks that I will address through my work.

Table 3: **Specific risks**

Risk	Audit response	Separate audit output?
Business planning The external financial environment remains a very challenging one across local government. Members and officers are continuing to explore new ways of working and to identify efficiencies in business	We will review the Council's progress in updating its medium term financial strategy and its business planning. We will assess overall financial standing and the Council's progress in delivering its medium term financial strategy.	No

Risk	Audit response	Separate audit output?
planning and in service delivery.		
Financial resilience	I will update my 2010/11 financial resilience assessment, taking into account management actions to monitor and report against budgets and to address any shortfalls in funding.	No
Partnership working	Review of the Council's progress in developing partnerships & its response to the localism agenda	No

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 by 30 September 2012.

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

Activity	Date	Output
Opinion: controls and early substantive testing	16 to 27 January 2012 12 March to 20 March 2012	Annual Governance Report
Value for money: business planning, financial resilience & partnership working	16 to 20 April 2012	Annual Governance Report
Opinion: receipt of accounts and supporting working papers	2 July 2012	
Opinion: substantive testing	25 July to 24 August 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	29 June 2012	Annual Governance Report
Issue opinion	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
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 07748 760569	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive and members.
Steve Golding Audit Manager	s-golding@audit-commission.gov.uk 07769 881392	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Regeneration & Communities.

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 £110,666 as set out in my letter of 20 April 2011

The audit fee

The Audit Commission has set a scale audit fee of £110,666 which represents a 5% per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

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 Regeneration & Communities 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 charges 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 there are no such fees payable.

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 6: **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; and
 - I secure the co-operation of the expert actuary and valuer.
- 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 Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 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 Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

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

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

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

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

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

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

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

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 2012.

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.

