

# Audit plan

Tamworth 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 will 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 and Governance Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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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

**P** 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**. I have initially assessed materiality as £1.260M.

## **O** Identifying audit risks

I need to understand the Authority 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 Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- 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 Authority's information systems.

## **I** Identification of significant risks

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

Table 1: Significant risks

Risk	Audit response
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Tamworth Borough Council this is likely to include, but not be restricted to your Castle; Offa's Seat; Parks; Assembly Rooms; Town Hall; and other miscellaneous buildings and artefacts.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p>
<p>The end of the housing subsidy regime will mean the Council borrowing around £44.668M, so is material and likely to happen in March.</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>• Agree settlement payment or receipt to the amount specified in the relevant Annex to the Settlement Payments Determination 2012.</li> <li>• Check that the settlement transaction has been accounted for in line with the requirements of the Code and relevant CIPFA guidance.</li> <li>• Agree details of loan transactions to supporting documentation.</li> <li>• Re-perform calculations supporting item 8 debit and item 8 credit to the HRA.</li> <li>• Check cash flow working papers to confirm that non-cash transactions associated with loan redemptions are excluded from related cash flows disclosed under operating and financing activities line items.</li> </ul>
<p>HRA reform</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 central government on or before 28 March</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>• Review management oversight of HRA reforms and transactions required by the Authority.</li> </ul>

## Risk

2012. This will adjust the HRA debt of the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.

Icelandic banks

As at January 2012, the Council had £4.6m invested in Icelandic Banks - £3m of which is invested in Glitnir. The recoverable amount of this investment was in doubt. However in November 2011 the Icelandic Supreme Court ruled that local authorities would receive 'priority creditor status' for deposits with Glitnir. This means that this amount should be recoverable over time. The Icelandic banks have repaid the Council £5.577M to date, with a further £2.253M of principal and interest still outstanding.

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When the recovery of the investment was in doubt the Council received a Capitalisation Direction from Central Government enabling the write-down of the impairment to be spread over a number of years. This will need to be reversed.

There is a risk that the recoverable amount could be materially misstated.

## Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and

## Audit response

- Undertake tests of detail on the settlement payment or receipt.

I will:

- evaluate the management controls you have in place to recognise and measure the recoverable amount from your investments in Icelandic banks
- undertake testing to check that the financial statements are materially stated reflect local circumstances.

- 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	Housing Rents Housing repairs NNDR Council Tax NNDR Treasury management Accounts payable Accounts Receivable Housing Benefits Payroll	Payroll Housing Benefits Accounts payable Accounts receivable Cash receipting Housing Rents Council Tax NNDR Housing Repairs			Non pay expenditure not covered by controls testing
Final visit			Pensions assets and liabilities – PWC as auditor to Staffordshire Local Government Pension Fund.	Pensions liabilities and assets – (Hymans Robertson LLP) and our own consulting actuary (PWC) Valuation of property, plant	Property, Plant and Equipment Analytical Review of Housing Rents, NNDR and Council Tax All material accounts balances and amounts Year-end feeder system

Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing	
			and equipment (Council's valuers), and Gerald Eve (our valuer).	reconciliations Journals	

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

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## I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority 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 Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: Significant risks

Risk	Audit response
<p><b>Economic Downturn and pressure on the public sector.</b></p> <p>Although the Council has regularly updated its Council Plan and financial strategy, the financial pressures will continue over the next few years. There is a risk that future reductions in spending levels may affect the quality of services, and affect financial resilience and value for money.</p>	<p>I will review:</p> <ul style="list-style-type: none"><li>– the Council's Medium Term Financial Strategy</li><li>– the arrangements for monitoring and achieving the Council's annual savings target</li></ul>

# Key milestones and deadlines

The Authority 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	February – April 2012	update to the Audit Committee
Review arrangements for counter fraud, accounting estimates, related party transactions, ensuring legality of transactions.	February – April 2012	Briefing paper for the Audit Committee on consideration of the International Auditing Standards for counter fraud, accounting estimates, related party transactions, and the legality of transactions.
Opinion: receipt of accounts and supporting working papers	June 2012 (on site work commences 2 July 2012)	n/a
Opinion: substantive testing	July – August 2012	Opinion on your financial statements
Value for money	March – August 2012	Value for Money Conclusion
Present Annual Governance Report at the Audit Committee	[XX 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

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The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
James Cook Senior Audit Manager	<a href="mailto:j-cook@audit-commission.gov.uk">j-cook@audit-commission.gov.uk</a> 0844 798 6689	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Joan Barnett Audit Manager	<a href="mailto:j-barnett@audit-commission.gov.uk">j-barnett@audit-commission.gov.uk</a> 0844 798 3963	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Mat Berrisford Team Leader	<a href="mailto:m-berrisford@audit-commission.gov.uk">m-berrisford@audit-commission.gov.uk</a> 0844 798 6676	Manages the team during the on-site audit visits.

# Independence and quality

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## 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.

## Page 14 **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](mailto: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

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## The fee for the audit is £109,250, as set out in my letter of 8 April 2011

### The audit fee

The Audit Commission has set a scale audit fee of £109,250 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 Corporate Director Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As the control environment is already well developed and I already place reliance on Internal Audit Work, I have not identified any further actions that you could take.

## Total fees payable

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

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit (scale fee)	109,250	115,000	(5,750)
Certification of claims and returns	31,500	38,446	(6,946)
Non-audit work	-	-	-
<b>Total</b>	<b>140,750</b>	<b>153,446</b>	<b>(12,696)</b>

The Audit Commission has also announced that it will pay a rebate of 8% of the scale audit fee back to councils for 2011-12, (In 2010-11, a rebate of 1.5% was paid back to the Council).

# 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	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.	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.
	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.	

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.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		



# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example internal controls are operating effectively.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The 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 2 July 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

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## **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.

## **Page Commission (the)**

<sup>2</sup>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.

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**0844 798 7070**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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