

# Audit plan

**Kent County 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.**

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# Introduction

## **This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion in 2010/11.**

1 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.

2 The Council is required to fully implement International Financial Reporting Standards (IFRS) in 2010/11. Due to the Council's size and complexity this is particularly challenging. As well as producing the 2010/11 financial statements in IFRS format, the 2009/10 accounts and opening position at 1 April 2009 need to be restated. Officers are working hard to deliver this and we are working closely with them to ensure that our audit is tailored to and supports this project.

3 The reductions in public spending mean that the Council is managing a major change in its financial structure. In this context our audit will include an assessment of the arrangements to deliver value for money, the Value for Money Conclusion. This considers two key criteria.

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

## **Responsibilities**

4 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.

5 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.

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

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

# Auditors report on the financial statements

## **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).**

**7** 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.

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

## **Materiality**

**9** I 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. Materiality is defined in auditing standards 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 opinion audit risks

**10** I need to understand fully 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's work; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

**11** This work is in progress. I have identified and documented the controls operating in 20 financial and information systems that contribute to the production of the annual statement of accounts. For one system, fostering care, I could not identify any auditable controls to rely upon and will devise an alternative testing approach.

## Risk assessment

**12** As part of my risk assessment, I am required to seek the views of the members of the Governance and Audit Committee as to whether they :

- have knowledge of any actual, suspected or alleged frauds affecting the Council;
- if they have been alerted to any non compliance with laws and regulations; and
- whether members are aware of any significant risks facing the Council which might have an effect on the 2010/11 financial statements, and if so, the likelihood of those risks materialising.

**13** I also seek an update from the Governance and Audit Committee as to how it :

- exercises oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. Management's processes may include:
  - undertaking an assessment of the risk the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to the committee on the processes for identifying and responding to fraud.
- gains assurance that all relevant laws and regulations have been complied with.

Please discuss the current arrangements at the March 2011 Governance & Audit Committee and provide a formal response to Elizabeth Robinson (erobinson@audit-commission.gov.uk ) by letter or email by 31 March 2010.

# Identification of specific risks

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

Table 1: **Audit risks**

Specific opinion risks identified

Risk area	Audit response
<p><b>International financial reporting standards:</b></p> <p>The financial statements will have to reflect for the first time the requirements of International financial reporting standards. This is a significant risk as the changes to reporting standards affect all main statements. This is a major workstream for the Finance Department at a time when its capacity is stretched.</p>	<p>I will consider the work the Council has performed to date and will review the accounting treatment and revised accounting policies for the areas affected by IFRS, including restated 2009/10 balances.</p>
<p><b>Accounting for leases</b></p> <p>The definition of leases is wider under IFRS and many more arrangements may conceivably be recognised as and have to be accounted for as leases.</p>	<p>The Council has a high volume and value of leases. Accounting for leases under IFRS is judgemental, and requires the agreement and then consistent application of the Council's accounting policies. I will assess the controls in place to identify and value lease arrangements.</p>
<p><b>Public Finance Initiative (PFI) accounting:</b></p> <p>Three PFI schools became operational during the year. The Council has to review the schemes and assess whether the assets are brought on to the Balance Sheet with an appropriate finance liability.</p> <p>I reported in the 2009/10 annual governance report that there was an uncertainty over the valuation of a PFI school. The Council has to value all the PFI schools, including the three new build schools if on Balance Sheet, in 2010/11.</p> <p>PFI accounting is a significant risk.</p>	<p>I will review the working papers prepared by officers to support the accounting treatments for the new PFI schools. I will test review the reasonableness of the valuation method used by the valuer.</p>
<p><b>Restructuring:</b></p> <p>The Council is currently undertaking a large</p>	<p>I will review the accounting entries in the</p>



Risk area	Audit response
<p>restructuring exercise of its directorates and central departments. This will involve redundancies and restructure costs that will need to be accounted for in 2010/11 financial statements. These are likely to be material estimates.</p>	<p>financial statements for the restructuring programme, including the review of the reasonableness of any provisions for redundancies or restructure costs.</p>
<p><b>Pension fund bank account:</b></p> <p>As of 1 April 2011 the County Council and Pension Fund will have separate bank accounts. The Council transferred the cash held on behalf of the Pension Fund on 1 July 2010. There is a risk that the Council fails to correctly separate all income or expenditure.</p>	<p>I will review the transfer process completed during the year as part of documenting the bank system. I will test the year end bank account reconciliation.</p>
<p><b>Actuary's assumptions:</b></p> <p>Barnett Waddingham is carrying out a full triennial valuation as at 1 April 2010. I am aware that different assumptions will be used from the previous actuarial valuation which may give rise to a material change to the Pension Fund's liabilities.</p>	<p>I will review and test the reasonableness of the assumptions made by the actuary in the triennial valuation. I will review the note in the financial statements and annual report to ensure the guidance is followed.</p>
<p><b>Foster care system:</b></p> <p>As part of documenting the material financial systems I identify key controls to gain assurance over the system. I was unable to identify key controls in the foster care system. The new manager is aware of the risks arising from a weak control environment and is starting to introduce controls in the system.</p>	<p>I will undertake substantive testing of the expenditure in the financial statements derived from the foster care system.</p>
<p><b>Icelandic bank deposits:</b></p> <p>The Council must write out the balance of the impairment as changes to accounting standards remove entries in the adjustment account. This is a sensitive issue for the readers of the accounts. I am expecting further guidance in a LAAP Bulletin before the financial statements audit.</p>	<p>I will review the accounting entries in the financial statements to ensure accounting standards are met.</p>
<p><b>Related Party Transactions</b></p> <p>'Clarity' International Standards of Auditing have increased the audit work required on related parties and in particular the investigation of management controls.</p>	<p>I will review management controls and test the completeness and accuracy of disclosed related party transactions.</p>

# Testing strategy

**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.**

**14** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**15** 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.
- Directorate packs.

**16** Wherever possible, I will 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.

- General Ledger

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

Management's experts

- Property valuations, including componentisation - Mouchel Parkman
- Actuarial valuations - Barnett Waddingham

Auditor's experts

- Property valuations - Gerard Eve
- Actuarial valuations - PriceWaterhouseCoopers (PWC)

I do not plan to rely on the work of other auditors for the 2010/11 audit opinion.

# Value for money conclusion

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

**18** 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.

**19** I have completed a risk assessment and plan to undertake the following work:

Risk area	Audit response
<p><b>Senior management restructure</b></p> <p>The Council's Change to Keep Succeeding proposals were approved by the Council on 16 December and will be implemented for the 2011/12 financial year.</p> <p>Significant changes to the management team may impact on the leadership team's collective knowledge, experience and skills and may have an impact on business continuity and capacity. Strong transitional arrangements are particularly important at a time when the Council has a particularly challenging agenda and as a result the Council has established project management arrangements, including risk management arrangements to mitigate against the risk identified.</p>	<p>I will :</p> <ul style="list-style-type: none"><li>- monitor the effectiveness of the risk management arrangements;</li><li>- review a sample of redundancies and any compromise agreements to determine the value for money;</li><li>- review the financial savings emerging from the restructuring;</li><li>- review the remapping of directorates budget.</li></ul>

Risk area	Audit response
<p><b>Financial challenges</b></p> <p>Councils are facing significant financial challenges. It has identified savings of £95 million in 2011/12 and £65 million the following year. Although the Council has an excellent history of delivering against its efficiency targets, this was of a different scale to the savings now required. The Council has identified that in 2011/12 this will require efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.</p> <p>The Council's robust financial management and budgetary control arrangements may no longer be sufficient to ensure that these savings are delivered.</p>	<p>I will :</p> <ul style="list-style-type: none"> <li>- monitor the progress the Council makes against its savings target;</li> <li>- review the project management arrangements to monitor the savings plan and manage risks at a corporate level and consider the progress against milestones for a sample of individual schemes;</li> <li>- test the assumptions behind a selection of savings targets.</li> </ul>

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011. As in previous years, I am planning to issue the opinion by 31 July 2011.**

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

**21** 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.

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

Table 2: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Control and early substantive testing	April 2011
Receipt of accounts	10 June 2011
Sending audit working papers to the auditor	13 June 2011
Start of detailed testing	13 June 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	30 June 2011 (interim) September 2011 (final - if required)
Issue opinion and value for money conclusion	By 31 July 2011

## Fee for the audit

### **The net fee payable by the Council in 2010-11 is £345,914.**

**23** In April 2010, I wrote to the Council setting out a fee of £385,000, some 7.7 per cent below the scale fee.

**24** The Audit Commission in its role of managing the market for audit fees, proposed a rebate to all councils to mitigate the cost of the introduction of IFRS. The rebate for Kent CC is £24,494.

**25** On 9 August, the Audit Commission (as the regulator) wrote to all councils about its proposed new arrangements for local value for money audit work. In recognition of the reduced work by auditors under the new arrangements it proposed a fee rebate. Following consultation, this has now been confirmed. The further rebate for Kent CC is £14,592.

**26** In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems, as agreed during the year, and this is available for our review by 30 April 2011.

**27** 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 first with the Acting Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

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

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	<a href="mailto:d-wells@audit-commission.gov.uk">d-wells@audit-commission.gov.uk</a> 0844 798 6110	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Emily Hill Senior Audit Manager	<a href="mailto:e-hill@audit-commission.gov.uk">e-hill@audit-commission.gov.uk</a> 0844 798	Manages and coordinates the delivery of the VFM conclusion.
Elizabeth Olive Audit Manager	<a href="mailto:e-olive@audit-commission.gov.uk">e-olive@audit-commission.gov.uk</a> 0844 798 1377	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Jeremy Jacobs Team Leader	<a href="mailto:j-jacobs@audit-commission.gov.uk">j-jacobs@audit-commission.gov.uk</a>	Key point of contact for Chief Accountant.

## Independence and objectivity

**29** 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.

**30** 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

**31** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

## Quality of service

**32** 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) who will look into any complaint promptly and to do what he can to resolve the position.

**33** 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

**34** My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	30 June 2011 (interim) September 2011 (final - if required)
Auditor's report giving an opinion on the financial statements	July 2011
Final accounts memorandum - if required	August 2011
Annual audit letter	29 November 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 our 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:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10
- 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 our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 13 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed 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 Governance and Audit 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 and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 3 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings**

Council officers	Audit Commission staff	Timing	Purpose
Acting Director of Finance	DA, SAM and AM	Quarterly	General update plus: March - audit plan July - accounts progress September - annual governance report
Chief Accountant	AM and Team Leader (TL)	Quarterly	Update on audit issues
Finance closedown meetings	TL	Monthly from November to May	Progress against closedown timetable
Governance and Audit Committee	DA and AM, with TL as appropriate	16 March 2011 30 June 2011 14 September 2011 29 November 2011	Formal reporting of: March - Audit Plan June - Annual governance report November - Annual audit letter Other issues as appropriate
Internal Audit	AM and Team Leader (TL)	Quarterly	Update on audit issues

### Sustainability

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

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

## Appendix 4 Glossary

### **Annual audit letter**

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

### **Audit of the accounts**

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

### **Audited body**

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

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

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

### **Auditing standards**

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

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

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

## **Ethical Standards**

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

## **Financial statements**

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

## **Internal control**

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

## **Materiality (and significance)**

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

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

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

Significance has both qualitative and quantitative aspects.

## **Members**

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

## **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 a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In 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, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. 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.