

# Audit plan

Kent County Council

Audit 2011/12



# Contents

---

<b>Introduction</b>	<b>3</b>
<b>Accounting statements and Whole of Government Accounts</b>	<b>4</b>
<b>Value for money</b>	<b>13</b>
<b>Key milestones and deadlines</b>	<b>17</b>
<b>The audit team</b>	<b>18</b>
<b>Independence and quality</b>	<b>19</b>
<b>Fees</b>	<b>21</b>
<b>Appendix 1 – Independence and objectivity</b>	<b>23</b>
<b>Appendix 2 – Basis for fee</b>	<b>25</b>
<b>Appendix 3 – Glossary</b>	<b>26</b>

# Introduction

---

**This plan sets out my 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 Council; 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 Governance and 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.**

Auditors issue audit reports giving an opinion on whether the accounting statements 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 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

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 the error judged in the particular circumstances of its omission or misstatement.’

At the planning stage of the audit, I have calculated materiality as £27 million. I will use this to identify the material financial systems that produce the accounting entries in the 2011/12 financial statements and will reassess materiality on receipt of the draft financial statements in June 2012.

## 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 your business risks, including assessing your risk management arrangements;
- considering your financial performance;
- 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 your information systems.

## Identification of significant risks

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

---

Table 1: **Significant risks**

Potential risk	Audit response
<b>Valuation of property, plant and equipment (PPE)</b> The Council is required to value PPE at fair value (with some exceptions such as infrastructure assets and assets under construction which are	I will review management controls over establishing the estimates, including arrangements for instructing the Council's Valuer and controls

## Potential risk

valued at historical cost). There is a risk that the valuation reported in the financial statements will be materially misstated due to:

- valuation of operational land and buildings is an estimate and even small changes in the estimation techniques employed by your Valuer can have a material impact on the value of PPE disclosed in the financial statements;
- misclassification of assets leading to incorrect valuation basis;
- failure to update valuations between formal revaluation dates;
- valuation of leasehold properties reflects an interest in the property rather than in the lease;
- misstatement of depreciation due to inappropriate asset lives;
- failure to apply the code requirements or your own policy on componentisation;
- inappropriate capitalisation of revenue expenditure;
- failure to consider impairments; and
- the accounting entries required to deal with property valuations in accordance with the Code are complex and flow through all the core statements and many of the disclosure notes in the financial statements.

### Accounting for pension assets and liabilities

The Council is required to account for post retirement benefits under International Accounting Standard (IAS) 19 and the entries in the financial statements relating to your share of the Kent Pension Fund assets and liabilities are among the largest in those statements.

The entries are based on assumptions determined by the Council in consultation with the Fund's actuary and on the information provided to

## Audit response

over information provided to the Valuer. I will also review the classification of your property assets to ensure that valuations are on the correct basis.

I will seek to rely on the work of your Valuer after carrying out necessary audit procedures and I will review the reasonableness of the carrying value of assets including those that have not been subject to formal revaluations in the year. I will do this with the help of my own expert Valuer.

I will undertake tests of detail on valuations and associated depreciation calculations and on the internal consistency of the financial statements in respect of PPE.

I will review capital expenditure generally and assess the risk of material error arising from failure to apply the Code requirements and your own accounting policies.

I will consider the Council's approach to identifying any impairments of assets.

I will review the management controls you have in place and undertake audit procedures, including the use of my own expert actuary, to evaluate the reasonableness of the assumptions used by your actuary and the estimates that result.

I will also undertake audit procedures to check that information provided to the actuary is complete and accurate.

## Potential risk

the actuary regarding staff numbers, contributions, retirements and early retirements and investment performance during 2011/12.

There is a risk that inappropriate changes to the assumptions used by the actuary or errors in the information provided to him will result in your share of the assets and liabilities being materially misstated. The accounting entries in respect of pension assets and liabilities are complex and flow through the core statements and several disclosure notes.

## Management override of controls

International Standards on Auditing (UK and Ireland) 240 presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.

## Audit response

I will test the appropriateness of accounting journals and other adjustments to the financial statements, review accounting estimates for possible bias and obtain an understanding of the business rationale of significant transactions that appear to be unusual.

## Identification of specific risks

I have also considered the specific risks that are relevant to the audit of the accounting statements. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements. I have set these out below.



Table 2: **Specific risks**

<b>Potential risk</b>	<b>Audit response</b>
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. Heritage assets include tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.</p> <p>There is a risk that the Council may be unable to identify and account for all such assets.</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 Council has accounted for and disclosed its heritage assets in accordance with FRS 30 and the Code.</p>
<p><b>Accounting for schools</b></p> <p>Schools are managed through a variety of governance arrangements and differences in those arrangements have implications for the accounting treatment. You account for academies, foundation and voluntary aided schools in accordance with IAS16 which means these schools are not on your balance sheet.</p> <p>Many schools seek to become Academies and there is a risk that you do not give sufficient consideration to schools that change status during the year. This could result in Schools being included or omitted from your balance sheet incorrectly. Because the value of schools is significant and there have been many changes of status in the year, the effect on the balance sheet is material.</p>	<p>I will review the management controls you have in place to recognise changes in status and the effective date of such changes.</p> <p>I will review the Council's consideration of schools and the IAS 16 recognition criteria and consistency with the accounting policy.</p> <p>I will also undertake tests of detail on the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.</p>
<p><b>Existing PFI schemes: Material adjustments</b></p> <p>At the inception of a PFI scheme, the expected accounting entries for the duration of the contract were modelled. There are four common events that require the accounting model (and accounting entries derived from</p>	<p>I will review the management controls you have in place to monitor events that may have an impact on the accounting entries for your PFI schemes</p>



## Potential risk

the model) to be updated. These adjustments may be material to the Council.

## Audit response

and conduct tests of detail (as appropriate) on:

- Contract variations;
- Payment deductions;
- Asset revaluation/ Impairment; and
- Refinancing.

## Provisions

The Council had nearly £50 million of long and short term provisions at 31 March 2011. Provisions are by their nature estimates of future liabilities and are charged against the General Fund which means they have an immediate effect on the outturn in the year. There is a risk that if the estimates that underlie provisions are unreasonable, the general fund will be materially misstated. Provisions are accounted for in accordance with IAS37.

I will review the management controls you have in place to review the creation of provisions at the year end both centrally and in the directorates. I will also undertake tests of detail to satisfy myself that the provisions are reasonable estimates of future liabilities meet the requirements of the Code and IAS37 and have been accounted for correctly.

## Capital grants used to fund Revenue Expenditure Funded form Capital Under Statute (REFCUS)

We noted an error in the 2010/11 statements in respect of the treatment of capital grants used to fund REFCUS. Capital grants used to fund REFCUS had been aggregated with other capital grants in the taxation and non specific grants line in the Comprehensive Income and Expenditure Statement (CIES) rather than being treated as revenue grants and taken to the relevant service line. REFCUS expenditure amounted to £145m in 2011/12 and much of it was grant funded. Therefore, the CIES service lines were materially mis stated as was the taxation and non specific grant income line. The bottom line of the CIES, however, is unaffected by this.

I will review the management controls that you have put in place to avoid the recurrence of this error.

I will also undertake tests of detail to check that the requirements of IAS8 have been applied in correcting the prior year error.

## Potential risk

We have discussed with officers the 2011/12 statements and the arrangements in place this year to ensure that capital grants used to fund REFCUS are treated as revenue grants. The error in the comparatives will need to be amended and there is a risk to the opinion that officers will fail to apply the requirements of IAS 8 and the Code in correcting the prior year error.

## Audit response

### Foster care and adoption payments system

Last year, I identified weaknesses in the operation of key controls within foster care and adoption payments systems. These systems are designed to control expenditure of some £40 million per year.

My documentation and walkthrough of the foster care and adoption payments system this year has shown that there has been no improvement in operating controls that can be audited. This does not necessarily mean that there are no controls operating at all, but it does mean that there are no controls that I can vouch to provide audit assurance.

I will undertake tests of detail to check that payments made accord with the underlying documentation and are based on the correct rates and an up to date financial assessment of the recipient.

## Testing strategy

My audit involves:

- 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

- 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 3: **Proposed work**

	<b>Controls testing</b>	<b>Reliance on the work of other auditors</b>	<b>Reliance on work of experts</b>	<b>Substantive testing</b>
Interim visit	<p>Evaluation of the effective design of the material financial systems used to produce the entries in the financial statements. Walkthrough testing of 18 systems and testing of controls of the following systems per the cyclical strategy:</p> <ul style="list-style-type: none"> <li>■ General Ledger;</li> <li>■ Accounts Payable;</li> <li>■ Accounts Receivable;</li> <li>■ Payroll; and</li> <li>■ Cash and Bank.</li> </ul>	Potential reliance on Internal Audit for the controls testing.	None	Substantive testing is to be completed for all material balances and disclosures in the financial statements.
Final visit	<p>School returns Year end system reconciliations</p>	None	<p>Pensions liabilities and assets – your actuary, Barnett Waddingham and my consulting actuary, PwC Valuation of property, plant and equipment – your</p>	<p>Audit work programme at directorates. Testing of all material accounts balances; the income and expenditure statement and forward balances and</p>

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
			Valuer, Jones Lang LaSalle and my consulting Valuer, Gerald Eve	comparatives. All material disclosure notes. Internal consistency of the financial statements.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

### Whole of Government Accounts (WGA)

Alongside my work on the accounting statements, I will report to the National Audit Office on your WGA return for the year ended 31 March 2012. The National Audit Office specifies the work I undertake and the target date for submission of my report is 28 September 2012.

# 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 Audit 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 and how resources are prioritised within tighter budgets and improving productivity and efficiency.

I also have to consider 'proper practices' as defined in the Code of Audit Practice that all local authorities should have in place. There are ten areas of expected proper practices including arrangements for good governance; performance management; risk management and data quality. Auditors are required to assess any material changes in the proper practices if matters come to their attention.

### Identification of risks

I have considered the risks that are relevant to my value for money conclusion. I do not consider any of the risks identified below as significant. I have identified risk areas that need to be considered to reach a conclusion and I will address each of these through my work.

I will report all my findings in the 2011/12 annual governance report. I do not consider any risks to require a separate audit report.

---

Table 4: **Value for money risks**

Risk	Audit response
<b>Financial challenge</b> The external financial environment remains a very challenging one with the savings targets continuing to increase in future years. The Council is	I will review key financial information to ensure the Council is well placed

## Risk

on track to successfully deliver £95m of savings in its 2011/12 budget but is facing increasingly difficult tasks in reducing areas of spending. Members and officers will need to consider new ways of working and delivering services to meet the financial challenge.

## Audit response

to meet the continuing financial challenges it is facing. This will include:

- whether the assumptions set for the medium and long term financial planning are robust;
- monitoring of its savings plans and whether these are sufficient to achieve £100 million saving required in 2012/13;
- reviewing the work of the Budget Programme Board; and
- reviewing equality impact assessment process used to support budget decisions.

### Changing public services agenda

The government plans a number of significant changes to public services to which the Council will need to respond whilst maintaining and improving current service delivery.

The Council's Medium Term Plan, Bold Steps for Kent, identifies some of the most significant of these changes on the Council's corporate financial and performance management arrangements including:

- the increased role in health and relationships with General Practitioners;
- increased use of personal budgets;
- mutualisation of service provision;
- the establishment of the Kent and Greater Essex Local Enterprise Partnership;
- the piloting of community budgets; and
- the operation of the big society fund.

I will monitor any significant changes to the Council's operating environment and any impact on the Council's financial plans.

### Value for Money probe

In the challenging financial environment described above, the Council must ensure that it achieves value for money in all areas of service

Following a planning meeting with the Corporate Director of Finance and Procurement, I will review the arrangements within children's services to

## Risk

provision. The Corporate Director of Finance and Procurement has discussed with the Corporate Management Team potential areas where the Council might benefit from a more in-depth consideration of value for money. In considering these, I have identified two potential areas of significant expenditure which would be relevant to my VFM conclusion :

- preventative children's services and the impact of the cost on placements; or
- reactive and proactive highways maintenance.

The Council is undertaking work in both these areas, as a result of the OFSTED inspection and re-letting of the Highway maintenance contract respectively.

### **New corporate governance arrangements**

The Council has adopted a new corporate governance structure during 2011/12 including the introduction of a hybrid model of governance, and a realignment of the officer structure.

### **Performance management**

The Council published 'Bold Steps for Kent' in December 2010. This is its medium term plan for the four years to 2014/15. In July 2011, the Council published a delivery framework for 'Bold Steps', setting out key priorities, milestones and key performance measures. Work is in progress to develop a rounded, robust performance monitoring suite to

## Audit response

understand how value for money is achieved.

Internal Audit's 2012/13 plan proposes a review of corporate governance. Subject to the scope and the timing of its work, I will seek to rely on this work for my VFM conclusion, supplemented as appropriate by;

- Interviews with members of corporate management and the Cabinet;
- Review minutes of the joint corporate board meetings; and
- Review of the process by which the Council has established its new structure and governance arrangements.

Internal Audit's 2012/13 plan proposes a review of performance management. Subject to the scope and the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the developing performance management arrangements.



## Risk

track progress against the key priorities.

### Data quality and workforce

In 2010/11 the Council's arrangements for safeguarding children was inspected. This raised concerns about operational practice (which is outside the scope of my consideration) and aspects of the Council's proper arrangements. I consider that the inspection highlighted weaknesses in the Council's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities

### Risk management

The Council has refreshed its approach to risk management. Managerially, the responsibility for risk management has been assigned to a newly created post of Head of Risk. This area is being covered on an interim basis.

## Audit response

In the event that Ofsted reinspect the Council before I issue my VFM conclusion, I will consider their latest findings that are relevant to my responsibilities.

Internal Audit's 2012/13 plan proposes a review of risk management. Subject to the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the Council's revised risk management arrangements.

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 31 July 2012.

Table 5: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January to March 2012	Audit plan
Opinion: audit of directorate packs	May 2012	None
Opinion: receipt of accounts and supporting working papers	08 June 2012	None
Opinion: substantive testing	June 2012	Annual Governance Report
Value for money conclusion review	April - June 2012	Annual Governance Report
Present Annual Governance Report to the Governance and Audit Committee	26 July 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 31 July 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 6: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 0844 798 6110	I am responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with senior officers and members of the Governance and Audit Committee.
Elizabeth Olive Audit Manager	e-olive@audit-commission.gov.uk 0844 798 1377	Manages and coordinates the different elements of the audit work. She is the key point of contact for the Corporate Director of Finance and Procurement.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Leads the audit team on site in delivering the opinion audit.

# 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 aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The mother of Ellie Dunnet, a Trainee Auditor, is a retired Head Teacher and governor at a Kent County Council school. She is currently Acting Head Teacher within an LA maintained school.	Ellie will not undertake or review any work relating to education or payroll in this area.
The wife of Daniel Woodcock, a Trainee Auditor, used to work within the estates team monitoring rental income. She left the Council in October 2011. In addition, Daniel's mother, currently works at Oakwood House.	Daniel will not undertake or review any work relating to rental income, Oakwood House or payroll of these areas.

## 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

---

**The fee for the audit is £346,500, as set out in my letter of 28 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £346,500 which represents a 10 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 of Finance and Procurement 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 will 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 the fees payable are as follows.

Table 2: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	346,500	385,000	(38,500)
Certification of claims and returns	20,865 <sup>i</sup>	10,933	9,932
Advice and Assistance – Review of Gateway	2,500	0	0
<b>Total</b>	<b>369,865</b>	<b>398,433</b>	<b>(28,568)</b>

<sup>i</sup> The 2011/12 claims fee is a proposed fee based on historical fee data and was set at the fee planning stage in April 2011. The fee in 2010/11 is less than anticipated as the number of claims and returns I audited has reduced. Therefore, the fee is likely to reduce for 2011/12 claims.



# 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 3: **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;
  - the accounting statements are complete when presented for audit; and
  - working papers supporting the statements are complete and provided to my audit team with the draft accounting statements
- 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 systems to be tested by Internal Audit were set out in the Audit Fee letter dated 28 April 2011.
- The Authority provides:
  - other information requested within agreed timescales; and
  - prompt responses to queries and draft reports.
- There are no questions asked or objections made by local government electors.

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

# Appendix 3 – Glossary

---

## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the 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.

