

# Audit plan

Herefordshire Council

Audit 2011/12



# Contents

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- Introduction.....3**
- Accounting statements and Whole of Government Accounts.....4**
- Value for money.....9**
- Key milestones and deadlines .....11**
- The audit team .....12**
- Independence and quality .....13**
- Fees .....14**
- Appendix 1 – Independence and objectivity .....16**
- Appendix 2 – Basis for fee.....18**
- Appendix 3 – Glossary .....19**

# Introduction

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**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 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

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.

## 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 the business risks facing the Council, including assessing your own risk management arrangements;
- considering the Council's 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 Council's information system activities and controls.

## Identification of specific and significant risks

I have considered the additional risks that are relevant to the audit of the Council's 2011-12 accounting statements and have set these out below.

Table 1: **Specific and significant risks**

Risk	Audit response
<p>The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011-12. Internal Audit were requested by the Chief Financial Officer (Section 151 Officer) to review the management of this major project and the IT control environment for the system after a suspected fraud by an officer involved in the project was promptly identified by the Finance team. They identified weaknesses in the arrangements, including insufficient monitoring of the activities of officers granted "super-user" privileges. These weaknesses make it all the more important that service area budget monitoring controls operate effectively.</p>	<ul style="list-style-type: none"> <li>■ Identify controls and carry out tests of detail on the migration of closing balances and financial information from the old ledger to the new ledger, placing reliance where appropriate on relevant internal audit work.</li> <li>■ Identify, document, walk-through and evaluate the IT and management controls in place</li> <li>■ Compliance test key controls to establish their operating effectiveness placing reliance, where appropriate, on relevant internal audit work.</li> <li>■ Substantively test the balance sheet using larger sample sizes to reflect the high risk of IT control environment.</li> <li>■ We will seek to obtain and test positive assurance statements from cost centre managers confirming that there are no suspicious or unexplained revenue transactions.</li> </ul>
<p>First time reliance on a service organisation (HOOPLE) for the initiation, processing, recording and reporting of financial transactions</p>	<ul style="list-style-type: none"> <li>■ Identify, evaluate and test the design and implementation of client-side controls over management and financial accounts prepared by HOOPLE. e.g. oversight of reconciliations, other key boundary controls, accounts closedown and preparation of financial statements.</li> </ul>

Risk	Audit response
<p>Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities)</p>	<ul style="list-style-type: none"> <li>■ Tests of detail, including pre-statement sample checking of items of account produced by the service organisation to source documentation</li> <li>■ Identify and review the proposed accounting treatment of the Council's interest in HOOPLE and establish whether the Council will need to prepare group accounts</li> <li>■ Identify the agreement reached with HOOPLE over pension fund deficit funding</li> <li>■ Review the terms of agreements to identify any potential residual assets or liabilities that might need to be recognised.</li> </ul>
<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. The Council will need to identify their heritage assets and identify their cost or value to account for them correctly. Assets are likely to include museum and archive collections, the valuation of which will involve significant judgement.</p>	<ul style="list-style-type: none"> <li>■ I will evaluate the management controls in place to recognise and value heritage assets. I will also undertake testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code.</li> </ul>
<p>In most local authorities schools are managed through a variety of governance arrangements. This affects the way that they are accounted for. A number of the Council's schools have changed to Academies or Foundation schools in 2001-12 and one school financed by PFI has applied to change status in the year. The Council could materially misstate its Property, Plant and Equipment assets if it incorrectly includes or omits schools in its balance sheet.</p>	<ul style="list-style-type: none"> <li>■ I will identify the finance team's arrangements for identifying schools that have changed their status and will test 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.</li> </ul>

Risk	Audit response
<p>Whole of Government accounts (WGA) – the Council’s draft WGA submissions in previous years have contained significant errors that required correction. HOOPLE will be preparing the WGA submission for the first time in 2011-12.</p>	<ul style="list-style-type: none"> <li>■ Identify and test management controls over the WGA data submission prepared by HOOPLE</li> <li>■ Carry out a programme of tests of detail of the data in the WGA pack.</li> </ul>

## Testing strategy

My audit involves:

- documenting, evaluating and testing the operation of key controls;
- placing reliance on the work of your internal auditors, the PCT’s external auditors and the Worcestershire Pension Fund auditor
- placing reliance on the work of experts (the Council’s valuer and consulting actuary)
- placing reliance on an auditor’s expert (for property valuation trend data and evaluation of the methods and assumptions used by the Council’s actuary)
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Ten fundamental financial systems	Reliance on relevant internal audit work		Grants, precepts, supporting people expenditure, payments to independent care homes

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Oversight of closedown	HPCT external auditor for HPCT hosted pooled budgets  Worcestershire Pension fund auditor for assurance for data provided to the actuary	Actuary to the Worcestershire Pension Fund and our own consulting actuary  The Council's valuer and our own consulting valuer	All material accounts balances and amounts

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 Council's arrangements to secure economy, efficiency and effectiveness.

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

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of significant risks

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

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Table 3: **Significant risks**

Risk	Audit response	Separate audit output?
The significant reduction in grants from central government in 2011-12 and 2012-13 is presenting all councils with a huge challenge to respond to. There is a risk that the savings and assumptions set out in the Council's new Medium Term	Review the robustness of the savings assumptions built into the Council's medium term financial plan and how these are being monitored.	No - Feedback to be provided in the Annual Audit Letter

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Risk	Audit response	Separate audit output?
Financial Plan, including the transformation programme savings, are not sufficiently robust to deliver a balanced medium term position.		
Continued overspending in Adult Social Care will make it increasingly difficult to balance the Council's financial position.	Review the Council's approach to addressing the overspending in Adult Social Care and the delivery of planned savings	No - Feedback to be provided in the Annual Audit Letter
The Council and its partner are considering varying the existing waste PFI scheme to include the provision of a waste to energy plant in Hartlebury. The Council will need to be able to demonstrate that changes to the current waste disposal arrangements deliver value for money.	Review the Council's assessment of whether changes to the Council's waste disposal arrangements deliver value for money	No - Feedback to be provided in the Annual Audit Letter

# 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 30 September 2012.

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

Activity	Date	Output
Opinion: controls and early substantive testing	February/March 2012	Interim audit letter to management if new risks are identified
Opinion: receipt of accounts and supporting working papers	June 2012	None
Opinion: substantive testing	July-August 2012	Final accounts memorandum to management
Value for money:	February 2012	VFM conclusion September 2012
Present Annual Governance Report at the Audit Committee	28 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	28 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
Elizabeth Cave District Auditor	<a href="mailto:l-cave@audit-commission.gov.uk">l-cave@audit-commission.gov.uk</a> 0844 798 7552	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Terry Tobin Audit Manager	<a href="mailto:t-tobin@audit-commission.gov.uk">t-tobin@audit-commission.gov.uk</a> 0844 798 7562	Manages and co-ordinates the different elements of the audit work.

# 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.

A member of the audit team declared that his spouse was employed occasionally by the Council in a role unrelated to the audit. I considered that this threat was of an acceptably low level. I have ensured that this member of the audit team does not carry out work directly relating to his spouse's area of work or payroll.

## 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 £274,672, as set out in my letter of 27 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £274,672 which represents a 5.4% reduction on the £290,330 actual fee for 2010/11. The Audit Commission has paid a rebate of £21,974 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £252,698.

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 Chief Officer, Finance and Commercial Services 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. I have not identified any actions that you need to 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 £000s	2010/11 actual £000s	Variance £000s
Audit	£275	£290	-£15
Certification of claims and returns	£20	£41	-£21
Inspection	£0	£38	-£38
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£295</b>	<b>£369</b>	<b>-£74</b>

# Appendix 1 – Independence and objectivity

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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	<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

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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;
- Complete and accurate data migration to newly implemented financial systems and key controls operate effectively in those systems;
- HOOPLE provides us with access to financial systems and responds promptly to information requests
- 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 their agreed programme of financial system audits in time for us to place reliance on it.
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

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

# Appendix 3 – Glossary

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## **Accounting statements**

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

## **Annual Audit Letter**

Report issued by the auditor to the Council 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 Council's systems of internal control that supports the achievement of the Council'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 Council and its subsidiaries, associates and jointly controlled entities.

### **Internal control**

The whole system of controls, financial and otherwise, that the Council 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 Council. This term includes the members of the Council 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 Council 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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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.

