

Audit plan

Durham County Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

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

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

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

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

My audit does not relieve management or the Audit Committee (as those charged with governance), of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

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 because of 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 financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of significant risks

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

Table 1: **Significant risks**

Risk	Audit response
<p>CIVICA</p> <p>The Council introduced a new Revenues and Benefits system in 2011/12. Migration from the seven former district systems to CIVICA increases the risk of material errors in housing and council tax benefits, council tax and business rates.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>EBS Oracle</p> <p>The Council introduced a new Accounts Receivable system in 2011/12. Migration from the seven former district systems to EBS Oracle increases the risk of material errors in income recognition in the accounting statements.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>Property, Plant and Equipment (PPE)</p> <p>The Council is introducing a new Single Asset register in 2011/12. Migration from the seven former district asset registers increases the risk of material errors in the property, plant and equipment balance in the accounting statements.</p>	<p>I will review and test arrangements in place to ensure that closing balances have been successfully transferred as opening balances in the new system.</p>
<p>Academies</p> <p>The Council has 16 schools transferring to Academy status in 2011/12. The Council may materially misstate property, plant and equipment in the balance sheet.</p>	<p>I will review Council consideration of IAS 16 recognition criteria and consistency with the accounting policy.</p> <p>I will also test detailed 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>

Risk	Audit response
<p>HRA Reform</p> <p>The government plans to reform local Council housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to central government on 28 March 2012 that will impact on the HRA debt of the Council. Because of the complexity, scale and timing of the HRA reform, there is a risk of material errors in the accounting statements.</p>	<p>I will review management's oversight of HRA reforms and transactions required. I will also test detailed settlement payments and the £55 million extra PWLB debt paid on 28th March.</p>
<p>Group Accounts</p> <p>During 2011/12 there have been changes to the Council's group interests in Premier Waste. Wrong inclusion or omission of group accounts is a risk.</p>	<p>I will review management's assessment of the need for group accounts.</p>
<p>IAS19</p> <p>The Council must include pension assets at fair value using the revaluation method as described in IAS 19. Pension assets can be subject to significant volatility and are valued each year. The disclosures in the accounting statements involve the use of the scheme Actuary, as the Council's expert, and include significant estimates.</p>	<p>I will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary.</p> <p>I will assess the controls over the estimation uncertainties.</p> <p>I will also agree the pension figures from the Actuary's report to the accounting statements and check the disclosures are consistent with requirements.</p>

Identification of specific risks

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

Table 2: **Specific risks**

Risk	Audit response
<p>Journal authorisation Officers do not review and authorise journals. This may result in the non-detection of material errors.</p>	<p>I will test material year-end journals and carry out detailed tests of income and expenditure.</p>
<p>Related party transactions There have been problems in previous years in getting written declarations promptly with the risk of omissions from the accounting statements.</p>	<p>I will review management controls in place for identifying and declaring related party transactions and undertake substantive testing once I receive the accounts.</p>
<p>Revenues and Benefits Reconciliations The Council implemented the new revenues and benefits system (CIVICA) in 2011. Officers should ensure that reconciliations to the general ledger and relevant sub-systems (including housing and council tax benefits, Council Tax, NNDR and Housing Rents) are completed.</p>	<p>I will review all revenues and benefits reconciliations.</p>
<p>Job Evaluation and Equal Pay The Council has set aside amounts for equal pay and job evaluation. The risk is the accounting treatment will not be correct.</p>	<p>I will review and test transactions for job evaluation and equal pay including any potential omissions.</p>
<p>Heritage Assets New Code requirements will result in changes to accounting policy and may require disclosures in the accounting statements.</p>	<p>I will review the process for identifying heritage assets for completeness and test if material.</p>

Group accounts

As noted in significant risks above, officers are assessing whether group accounts are required in 2011/12. We will review this when complete.

Testing strategy

My audit involves:

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

I have sought to:

- maximise reliance, subject to review and reperformance, 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**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Financial Systems	General ledger Payroll SIMS SSID Significant Risks	None	None	Early work on: <ul style="list-style-type: none"> ■ income and expenditure ■ Bank Reconciliations ■ investments and loans; ■ Payroll; and ■ significant risks.

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Financial Systems		Pensions assets and liabilities – Audit Commission Auditors of group interests – if group accounts prepared.	Pensions liabilities and assets – Aon Hewitt and our own consulting actuary Valuation of property, plant and equipment – in-house valuer and Gerald Eve. Financial Instruments – Sector.	All material accounts balances and amounts Year-end feeder system reconciliations

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

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

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

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

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

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion and I have not identified any significant risks.

I will plan a programme of VFM audit work based on my risk assessment, focusing my work in the following areas.

- The refreshed Medium Term Financial Plan (including quarterly finance and monitoring reports).
- The monitoring and action taken to achieve the planned savings and efficiencies and contributing to continued VFM in the Council's use of its resources.

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 – June 2012	Interim Annual Governance Report
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	
Opinion: substantive testing	July – September 2012	Final Accounts report
Progress meetings	As and when required	
Value for money: Securing Financial Resilience and Economy, Efficiency and Effectiveness	Ongoing monitoring	
Present Annual Governance Report at the Audit Committee	27 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	27 September 2012	Auditor's report
WGA opinion	27 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

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

Table 5: **Audit team**

Name	Contact details	Responsibilities
Cameron Waddell District Auditor	c-waddell@audit-commission.gov.uk 0844 798 1632	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Catherine Banks Audit Manager	c-banks@audit-commission.gov.uk 0844 798 1601	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources and Heads of Finance.
Campbell Dearden Team Leader County	c-dearden@audit-commission.gov.uk 0844 798 1635	Team Leader. Key point of contact for Principal Finance Officers.

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 6: **Threats and safeguards**

Threat	Safeguard
One member of staff on my team has a relative who works in the pensions team in a non-finance position.	This member of staff will not undertake or review any work relating to payroll and pensions.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £555,300, as set out in my letter of 6 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £555,300 which represents a 10 per cent reduction on the original audit fee for 2010/11.

The scale fee covers:

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

The scale fee reflects:

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

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

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take.

- Improve the adequacy of the control environment.

Total fees payable

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

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

Based on current plans the fees payable are as follows.

Table 7: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£555,300	£637,000*	- £81,700
Certification of claims and returns	£102,000 (revised estimate)	£102,045	-£45
Non-audit work	£0	£52,000	- £52,000
Total	£645,300	£779,965	£134,665

* Original fee of £617,000 plus additional fee of £20,000

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 8: **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 are put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- 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 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 the agreed date;
 - undertake appropriate quality reviews of the financial statements and supporting working papers;
 - other information requested within agreed timescales;
 - you will inform me of significant developments impacting on the audit; and
 - prompt responses to 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 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 Council internal controls that support 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 a Council and its subsidiaries, associates and jointly controlled entities.

Internal control

All controls, financial and otherwise, 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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0844 798 7070

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

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

