

North Hertfordshire District Council

Audit plan 2011/12

January 2012

An overview of your 2011/12 audit plan

This is our audit plan for the financial year 2011/12 for North Hertfordshire District Council (the Council). It sets out the work that we will carry out in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving Value for Money (VfM).

We set an indicative fee in April 2011. In setting this fee, we assumed that the general level of risk in relation to the audit would not be significantly different from that identified for 2010/11. Following the completion of the 2010/11 audit we have updated our accounts audit risk assessment.	See Accounts audit
The new approach to local Value for Money audit work was introduced by the Audit Commission in 2010/11. In 2011/12 we will continue to give our value for money conclusion based on two reporting criteria specified by the Audit Commission.	See Value for money audit
As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.	See Engagement team
We have used the published 2011/12 Audit Commission scale of fee for the Council as our proposed fee. The planned fee remains as per the Indicative Fee letter (issued in April 2011).	See Audit fee
You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. We comply with the Audit Commission's requirements in respect of independence and objectivity .	See Appendix A

Accounts audit - introduction

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2011/12 accounts at the Council. The plan is based on our risk-based approach to audit planning and uses our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

The Council's accounts are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare accounts, which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

Our approach

We will utilise our audit software package to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. Our audit software package also helps us to comment constructively on your system of internal controls.

Our approach will be to report all significant findings to management so that the Council can choose to secure improvement opportunities. We report only those findings that represent a control weakness to the Finance, Audit and Risk Committee accompanied by formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Planning	<ul style="list-style-type: none"> • Updating our understanding of the Trust through discussions with management and a review of in year internal financial reporting • Identifying and resolving specific accounting treatment issues
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements • Assessing the effectiveness of internal audit
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosure issues in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view • Determining an audit opinion • Reporting to Finance, Audit and Risk Committee through our ISA 260 report and Annual Audit Letter

Accounts audit - risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Financial performance	All areas of the financial statements	<ul style="list-style-type: none"> We will keep the Council's financial performance under continuous review throughout the year through discussions with key officers of the Council and consideration of the financial monitoring reports.. We will also review the savings plans for 2011/12 and the progress made. This will be informed by the Finance Resilience work to be undertaken as part of our Value for Money programme (see page seven)
Weaknesses in the Council's IT systems are not addressed	All areas of the financial statements	<ul style="list-style-type: none"> We will review the overall IT environment against the Council's risk registers and internal audit plan as well as undertake a review of the main IT systems used by the Council in order to gain assurance over amounts disclosed in the financial statements.
Accounting for property, plant and equipment	Non current assets & Income and expenditure	<ul style="list-style-type: none"> We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We will also consider the completeness of the Councils work on valuations and instructions to its valuers. We will be undertaking a detailed review of property, plant and equipment accounting to ensure all issues identified in the prior year have been addressed.

Accounts audit - other issues

Additional assurance work

To support the audit opinion for 2011/12, we will undertake the following reviews:

- VAT - work is planned to review the current arrangements the Council has in place are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation
- PAYE - We will undertake a review of the arrangements the Council has in place regarding taxation associated with payroll, including National Insurance and PAYE. This will look to provide assurance over the figures recorded within the financial statements are true and fair and calculated appropriate and in accordance with current legislation

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack prepared by the Council for consistency with the Council's accounts.

Certification of grants and returns

In addition to our audit of the Council's financial statements and the Value for Money audit, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2011-12.'

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

Accounts audit - public reporting

Annual Governance Statement and external reporting

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

We will assess the quality of the Council's external reporting using our benchmarking tool, which uses data from over 200 UK local authorities to identify best practice. This will enable us to report areas where the Council is performing well and areas where there is scope to improve to improve external reporting to move towards 'best in class' in 2011/12 and beyond.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Value for money audit

Introduction

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2011/12 VfM conclusion

The Value for Money approach for 2011/12 remains the same as the prior year. Our VfM conclusion will be based on two reporting criteria specified by the Audit Commission:

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

The work we will do to conclude on these criteria is summarised in the following charts:

Code criteria

The Council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

Work to be undertaken

A review against the code criteria risk indicators

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Undertake a follow-up review of the Council's financial planning, governance and high level controls, using the 2010/11 Financial Resilience Review findings as a baseline.
- Follow up progress on the 2010/11 Financial Resilience Action Plan.

Value for money audit

Code criteria

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will consider whether the Council is prioritising its resources within tighter budgets

Work to be undertaken

A review against the code criteria risk indicators

Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- Undertake a review of the arrangements the Council has in place to ensure effective project management and effective post-implementation reviews of projects, by using the recent adoption of shared service arrangements for the delivery of internal audit as a case study.

We will tailor our VfM work to ensure that as well as addressing our high risk areas, it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for officers and Members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a brief specification for each review outlining the scope, methodology and timing. These will be agreed with officers and presented to Finance, Audit and Risk Committee.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Engagement team - key contacts

Your main audit team is based in London and are all public sector specialists.

However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.



Phil Westerman (ACA)
Engagement Lead
T 07970 270981
E philip.r.westerman@uk.gt.com

Phil is the Council's Engagement Lead, and is the key contact for the Chief Executive, the Strategic Director of Finance, Policy and Governance, other senior Council Officers and the Audit and Risk Committee.

Phil is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Denis Thorpe (CPFA)
Client Service Manager
T 07768 326514
E denis.thorpe@uk.gt.com

Denis is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.

Denis reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.

Sandeep Bhakar (ACA)
Audit Executive
T 07944 898145
E sandeep.bhakar@uk.gt.com

Reporting to Denis, Sandeep is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department. Sandeep will be supported by a team of audit assistants..

Engagement team - specialist support



Negat Sultan
IT Audit Manager
T 0116 247 5590
E negat.sultan@uk.gt.com

Negat is responsible for review of the Council's IT systems to complement the financial accounts process.

Negat also takes the lead on any additional work required in areas such as data quality and security.



Melanie Fox (ACCA)
Grants Manager
T 0799 580 8776
E melanie.fox@uk.gt.com

Melanie is responsible for the overall management of the grants audit programme and will work with the Council to coordinate the certification of the grant claims.



Bob Anderson (ACA)
IFRS Specialist
T 020 7728 2245
E bob.anderson@uk.gt.com

Bob is responsible for the provision of specialist technical support to the audit team. Bob will be used to provide support and advice to the Council throughout the year as it prepares its accounts for 2011/12.



Guy Clifton
Advisory Specialist
T 020 7728 2903
E guy.clifton@uk.gt.com

Guy has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

How your scale audit fee is calculated

The Audit Commission has published a scale fee for all authorities. This scale fee balances both the drive to provide greater efficiency in the audit and our assessment of risk and complexity.

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

2011-12 audit fee

Your external audit fee for 2011/12 is £114,136 (£120,143 in 2010/11). This is the same as the indicative fee communicated to you in March 2011, and represents a 5% reduction on last years fee.

The fee will be subject to continuous review and may be revised if significant new audit risks during the audit or if we are unable to progress as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the Strategic Director of Finance, Policy and Governance .

A summary of the audit fee is shown in the table below:

Table 2: 2011/12 audit fee

Audit area	Planned fee 2011/12	Actual fee 2010/11
Accounts, including WGA	£99,136	£84,893
VfM conclusion	£15,000	£35,250
Total audit fee	£114,136	£120,143
Certification of claims and returns*	£25,000*	£20,233

* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

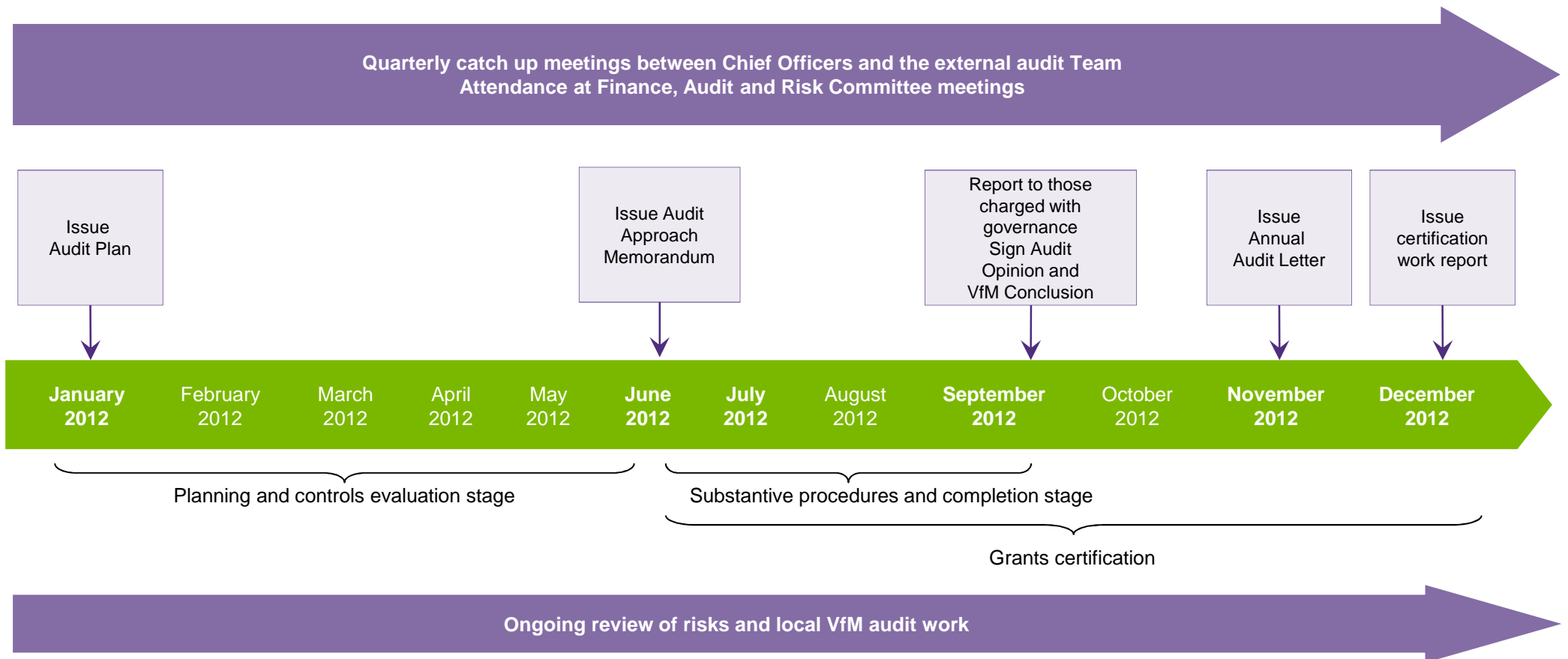
Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Finance, Audit and Risk Committee.

Reports are addressed to the Finance, Audit and Risk Committee and management and are prepared for the sole use of the Council. No responsibility is taken by the auditors to any member or officer in their individual capacity, or to any third party.

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> Outline audit approach for the accounts and VfM audits Identify initial high risk areas and our planned response 	January 2012
Audit Approach Memorandum	<ul style="list-style-type: none"> Report the results of the control evaluation of our audit and its impact on our planned audit approach Confirm focus areas for the audit of the accounts based on updated risk assessment Confirm with Senior Officers and Finance, Audit and Risk Committee 	June 2012
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> Highlight key issues arising from the audit and the resolution of these Communication of adjusted and unadjusted audit differences Improvement recommendations resulting from audit procedures 	September 2012
Auditor's reports	<ul style="list-style-type: none"> Report on the Council's financial statements Report on the Council's value for money conclusion 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Short summary of the key issues arising from our 2011/12 audit 	November 2012
Grants Claim Certification	<ul style="list-style-type: none"> Highlights key issues arising from our grants certification work Recommendations identified for improvement 	December 2012

Timeline



Appendix A

Independence and objectivity

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix B

Keeping you up to date...

Grant Thornton
Spending Review 2010 Headlines

Grant Thornton
The Bribery Act 2010

Grant Thornton
Sustainable cities
A vision of our future landscape

Grant Thornton
Asset management

Grant Thornton
Surviving the storm:
how resilient are local authorities?

Grant Thornton
Annual Governance Statement:
adding real value?

Grant Thornton
Is your audit committee effective?

Key findings from 'Surviving the storm':

- 28% reduction in funding
- Staff cuts over annual open cut
- From Total Place to Big Society
- Major restructuring of services announced
- Local government faces a perfect storm
- Merge talks progressing between councils
- Pressure on social care provision
- Community support over planned library closures
- Free loading of cash raised from income for local authorities



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