

Audit plan

Dover District Council

Audit 2011/12



Contents

Introduction	3
Accounting statements and Whole of Government Accounts	4
Value for money	10
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

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.

I am pleased to present to you our Audit Plan. This includes:

- my 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 Council documents and minutes;
- my audit strategy; and
- my 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 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.

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.	Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Completeness	All transactions and events that should have been recorded have been recorded.	Existence	Assets and liabilities exist.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.	Rights and obligations	The Council holds or controls the rights to assets and liabilities are the obligations of the Council
Cut off	Transactions and events have been recorded in the correct accounting period.	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 error judged in the particular circumstances of its omission or misstatement.’

For planning purposes, I have set the materiality level at £1.89 million, but will update this to reflect the statements presented for audit.

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 and understanding your business risks, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing your internal control arrangements, 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 and specific risks

I have considered the risks that are relevant to my audit of the accounting statements and have set out my response. Significant risks are those risks requiring special audit attention in accordance with auditing standards. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements.

Table 1: **Significant and specific risks**

Risk	Audit response
<p>HRA reform (significant risk)</p> <p>The government is reforming local Council housing finance, adopting a self-financing model from 1 April 2012. Under the model the Council will pay a one-off settlement payment to central government on or before 28 March 2012. The Council's expected payment is £90.487million. Due to the timing and magnitude of the HRA reform there is risk that the 2011/12 accounting statements will be materially misstated in this respect.</p>	<p>Review of management oversight of HRA reforms and transactions required by the Council.</p> <p>Tests of detail on the settlement payment and associated PWLB funding included in the financial ledger.</p> <p>Review of the completeness and accuracy of the disclosures in the accounting statements.</p>
<p>East Kent Housing ALMO (significant risk)</p> <p>On 1 April 2011 the Council transferred its housing management services to a joint East Kent Housing ALMO. The ALMO will not have any significant assets, but will reflect any movements in the pension fund deficit after 1 April 2011 in its balance sheet. It will also include all housing management staff cost expenditure in its accounting statements.</p> <p>There is a risk that the Council's share of the ALMO balance sheet entries and expenditure will not be correctly included in its accounting statements.</p>	<p>Review of Council's plans for bringing the ALMO balance sheet entries and expenditure into its accounting statements.</p> <p>Review of controls over housing management expenditure and/or reliance on work of ALMO's own external auditor if material group accounts entries are included in the Council's accounting statements. (The Council thinks it is unlikely that it will need to prepare group accounts, on the grounds of materiality).</p> <p>Tests of detail on the transactions included in the accounting statements.</p>

Risk

Shared service arrangements (specific risk)

The Council actively uses shared services to achieve economies of scale. The implementation of this agenda raises the following risks:

- Potential lack of audit assurance from shared services not managed by the Council.
- Potential lack of audit assurance due to weaknesses in key controls at shared service providers, e.g. payroll where our controls assurance work in 2010/11 identified weaknesses in the operation of key controls.
- Embedded leases not accounted for, e.g. the shared waste contract. The Council's review of the contract last year concluded that there were no embedded leases. The Council needs to revisit its assessment to confirm that this accounting treatment remains appropriate in 2011/12.

Heritage Assets (specific risk)

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. The Council has to include heritage assets in its accounting statements for the first time in 2011/12. 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. There is a risk that the Council may be unable to identify value and/or correctly account for its heritage assets in the accounting statements.

Related Party Transactions (specific risk)

During our 2010/11 audit we identified material related party transactions which had not been identified and disclosed by the Council. The accounting statements were amended on audit to correct these omissions. If the procedures are unchanged in 2011/12 there is a risk of incomplete disclosures in this year's accounting statements.

Audit response

Review of contractual terms for all material shared service arrangements.
Review of the Council's controls over financial transactions, e.g. management oversight of reconciliations between expected information from the service organisation and actual data, including exception reports.
Update of systems documentation for material financial systems managed by shared services and walkthrough tests to confirm key controls continue to be operated in 2011/12.
Controls testing of payroll key controls at the Council and/or the shared service provider in 2011/12.
Tests of detail, including sample checks of items of account in the Council's accounting statements to source documentation.
Review of the Council's embedded lease assessment for all new contracts.

Review and evaluate the management controls you have in place to recognise and value heritage assets.
Tests in detail to check that the Council has correctly accounted for heritage assets in its accounting statements and made the necessary accounting disclosures in accordance with FRS 30 and the Code.

Review the processes adopted by the Council in 2011/12 to identify all material related party transactions requiring disclosure in the accounting statements.
Testing of detail of the disclosures in the accounting statements for accuracy and completeness.

Group accounts

I am responsible for the direction, supervision and performance of any required group audit. If group accounts are produced by the Council I may contact the auditors of East Kent Housing ALMO, if necessary, as part of my audit procedures. Please discuss with me any concerns you have about me contacting the ALMO's auditors.

Testing strategy

I plan to rely on the effective operation of key controls within your financial systems that contribute to the production of your annual accounting statements. My work will involve documenting the way your financial systems operate and testing the effectiveness of controls throughout the year. I will also review the control environment in which the key financial systems operate and assess your IT control environment.

My audit involves:

- testing of the operation of controls;
- review and reperformance of any relevant work of your internal auditors;
- 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 the work that can be undertaken before you prepare your accounting statements. The nature and timing of my proposed audit 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 phase 1	Updating our systems documentation of material systems and performing a walkthrough to confirm our understanding.			

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit phase 2	Evaluation of control environment and IT control environment Controls testing of creditors, general ledger and payroll systems	Reliance on any relevant internal audit work		Early substantive testing, e.g. Property, Plant and Equipment ownership and existence
Final visit		Potential reliance on the auditors of the East Kent Housing ALMO if material ALMO transactions are consolidated into your accounting statements - Baker Tilly Pensions assets and liabilities – auditor to the Kent Pension Fund	Pensions liabilities and assets – Barnett Waddingham and our own consulting actuary Valuation of property, plant and equipment – your internal valuer	All material accounts balances and disclosures Year-end feeder system reconciliations

I will maintain regular dialogue with the Director of Finance and his team throughout the audit, and ensure that we raise any significant issues with the Council at the earliest opportunity.

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 and specific risks

I have considered the risks that are relevant to my value for money conclusion. I plan to consider the following risks during my audit:

Table 3: **Significant risks**

Risk	Audit response	Separate audit output?
Financial climate: The economic downturn adds significant pressure on the financial position and outturn of the Council, e.g. increased demand on services by vulnerable people and reduced Government funding and grant income. Central Government is proposing several significant local government reforms which will impact on the Council's medium term financial plans (MTFP), including the localism of support for council tax benefits and the local collection of business rates.	We will compare the Council's financial performance in 2011/12 with its budget and review the reasons for any significant variances. We will consider whether the Council has set a balanced budget for 2012/13 and is developing and implementing adequate savings plans. We will review whether the Council has considered the implications of the LG resource review for its MTFP.	No

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 plan	February and March 2012	Opinion plan
Opinion: controls and early substantive testing	February and March 2012	Interim memo (if required)
Opinion: receipt of accounting statements and supporting working papers	30 June 2012	
Opinion: substantive testing	30 July to end August 2012	Annual Governance Report
Value for money	Ongoing	Annual Governance Report
Present Annual Governance Report at the Audit Committee	September 2012 – date to be confirmed	Annual Governance Report
Issue opinion and value for money conclusion	By 30 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
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 07748 760569	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive and members.
Lynn Clayton Audit Manager	l-clayton@audit-commission.gov.uk 07881 836129	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Sarah Bubb Team Leader	s-bubb@audit-commission.gov.uk 07970 063729	Leads and manages the on-site audit team to ensure all work is completed to agreed timescales.

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 not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

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 £117,800 as set out in my letter of 14 April 2011

The audit fee

The Audit Commission has set a scale audit fee of £117,800 which represents a 5 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) in 2010/11.

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 at 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 Mike Davis (Director of Finance) 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 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£117,800	£124,000	-£6,200
Certification of claims and returns	£41,500 ⁱ	£50,787	- £9,287
Total	£159,300	£174,787	-£15,487

ⁱ It should be noted that the fee for claims and returns has been significantly higher than this in previous years due to the amount of additional testing required on the housing benefit claim. We will work with the Council to identify actions that can be taken to minimise the cost of any additional testing required in 2011/12.

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 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

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;
 - I secure the necessary co-operation of other auditors; and
 - the draft accounting statements are not materially misstated.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- 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

Accounting statements

The annual statement of accounts that the Council is required to prepare, which reports 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 a 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 or Governance 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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- any director/member or officer in their individual capacity; or
- any third party.



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