

Audit plan

Lincolnshire County Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

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 every audited body.

2 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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £265,000 as indicated in my letter of 27 April 2010.

4 The Audit Commission scale fee for Lincolnshire County Council is £265,440. The fee proposed for 2010/11 is in line with the scale fee.

5 However, the Commission wrote to all audited bodies, on 9 August 2010, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation has been delayed.

6 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS).

7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions the Council could take to reduce its audit fees

9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As the proposed fee is close to the scale fee the opportunities for any reduction may be limited however, I will continue to work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

11 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

12 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial 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 specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>Re-statement of the 2009/10 audited accounts into IFRS format</p>	<p>We will review the reconciliation between closing balances under UK GAAP and the opening balance under the IFRS-based Code and ensure that the accounting treatment is in line with the IFRS-based Code and applicable accounting standards.</p> <p>We will also review the reconciliation between the 2009/10 income and expenditure account (prepared using UK GAAP) and the adjusted comprehensive income and expenditure statement for 2009/10 (prepared using IFRS). A similar review will cover movements in reserves and the cash flow statement.</p>
<p>Preparation of the 2010/11 accounts in IFRS format</p>	<p>We will review the format and content of the primary statements, including accounting policies and material notes, using the latest available technical guidance. We plan to rely on our controls testing plus tests of detail (substantive testing) at the post statements stage of the audit to inform our audit opinion.</p>
<p>School non current assets are likely to require different treatment under the new CIPFA Code, depending on the type of school. For example the plant, property and equipment of foundation schools and most voluntary aided schools is now likely to be off balance sheet.</p>	<p>Schools are the largest category of non current assets in the balance sheet. We will review the treatment of schools accounting to ensure it is supported by the Code and relevant standards. We will carry out tests of detail on the classification and accounting for individual schools.</p>
<p>Potential employee liabilities</p>	<p>The impact of the recent Comprehensive Spending Review (CSR) could lead to some job losses around the next year-end which may lead to material liabilities which will need to be disclosed in the 2010/11 accounts. We will carry out tests of detail to verify the disclosures made at 31 March 2011.</p>

Opinion testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.

13 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

14 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

15 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

16 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. Based on previous years and current knowledge there are no material areas of the financial statements which require us to place reliance on the work of another auditor but I do plan to rely on the work of experts in the following areas.

- The actuary (Hymans Robertson LLP) for our work on pension fund valuations and the overall pension liability.
- The Audit Commission also employs its own expert (PWC) to produce a report on the trends and findings that the actuary is reporting, which I shall also take account of.
- The council's own in house valuer (Mouchel) for non current asset valuations.
- The council's external valuer (Savill's) for agricultural investment properties.
- We will use the Audit Commission's own valuer (Gerald Eve) to assess the overall reasonableness of the valuations and movements reported. If needed we are able to commission client specific reviews.

Value for money conclusion

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

17 This is based on two criteria, specified by the Commission, related to your 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.

18 I will plan a programme of VFM audit work based on my risk assessment.

Identification of specific risks

I have considered the additional risks that are appropriate to the value for money conclusion and have set these out below.

Table 2: **Specific risks**

Specific value for money conclusion risks identified

Risk area	Audit response
Financial resilience – the impact of the CSR will place the Council's financial health under strain. The creation of many more academy schools could lead to further loss of income.	We will review the latest financial strategy and the Council's response to risk areas over the medium and longer term and monitor developments as the strategy is revised as further information becomes available. We will consider the application of the Audit Commission's financial ratio tool and local service reviews to inform our conclusion.
The potential loss of experienced staff linked with the fall out from the implementation of the CSR could lead to some disruption of services.	We will monitor and assess the Council's response to this risk and consider any reports by other inspectorates and review agencies.
The new community based budget pilot will give the Council responsibility for managing additional funding of around £100 million from 1 April 2011.	This scheme provides a good opportunity to influence future models of service provision but comes at a difficult time. Planning will need to be done in 2010/11 at a time of significant change management. We will monitor and assess the Council's response.
Prioritising of resources within tighter budgets and improving productivity and efficiency.	We will consider the application of the Audit Commission's vfm profile tool and local service reviews to inform our conclusion.
The award of a major contract for a waste facility and associated services at Teal Park has been delayed until January 2011 and may be challenged. Any significant delay could impact on financial resilience longer term as costs of construction and landfill tax escalate.	We will monitor and assess the Council's response to this risk.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

19 The key stages in producing and auditing the financial statements are in Table 3.

20 I have already provided officers with a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

21 Periodically and usually every week, during the main post statement audit visit, the audit team will meet with the key contacts and review the status of all queries. Meeting frequency also depends on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
Control and early substantive testing	January – April 2011
Receipt of accounts	By 30 June 2011
Sending audit working papers to the auditor	By 30 June 2011
Start of detailed testing	July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	Mid September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Tony Crawley District Auditor	t-crawley@audit-commission.gov.uk 0844 798 4098	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion.
Mike Wood Audit Manager	m-wood@audit-commission.gov.uk 0844 798 4056	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources and his team.

Independence and objectivity

22 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, except the one individual below, which I am required by auditing and ethical standards to communicate to you.

23 Niall Davidson Petch (Stage 2 CIPFA trainee) has disclosed a potential conflict as his wife is employed as deputy head teacher at St Peter at Gowts Primary School. We have agreed that Niall will not undertake any work that may involve the school, directly or indirectly (ie LEA based work or a review of school IA files etc). Niall will inform his line manager if at any point he believes a conflict of interest could arise during any of his work. This has been approved by the previous Regional Head of Audit (Central Region) Delyth Morris and will be kept under review.

24 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

25 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

26 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 of Professional Practice, 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.

27 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).

Planned outputs

28 My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council:
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you provide:
 - good quality working papers and records to support the financial statements by 30 June 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

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

In its latest audit fees consultation document dated December 2010, the Audit Commission announced a rebate of 3.5 per cent on the 2010/11 scale fee to reflect the new approach to the value for money conclusion. This is in addition to the earlier rebate relating to IFRS transition.

Appendix 2 Independence and objectivity

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 the 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) require 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; and
- 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 Council 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 (ie 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 District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor 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 bodies in general, or to a particular local government body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Resources and management team members	DA and AM	November, March, May, September	General update and matters arising plus: <ul style="list-style-type: none">■ March – audit plan;■ May – audit progress;■ September – annual governance report; and■ November – annual audit letter.
Client technical accountants	AM and Team Leader (Louise Stables)	Every 6-8 weeks plus more frequently during post statements audit	Update on audit issues and matters arising from the audit work.
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report; and■ Other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

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 that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial 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 financial 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 in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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 in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In local government, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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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.



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