

Audit plan

Lincolnshire County Council

Audit 2011/12



Contents

Introduction	3
Accounting statements and Whole of Government Accounts	4
Value for money	9
Key milestones and deadlines	11
The audit team	12
Independence and quality	13
Fees	15
Appendix 1 – Independence and objectivity	17
Appendix 2 – Basis for fee	19
Appendix 3 – Glossary	20

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 Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- 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 Authority's information systems.

Identification of significant risks

I have considered the additional 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>Closedown problems</p> <p>Last year this included delays in producing some working papers relating to capital accounting and IFRS changes. This led to a late audit opinion. The audit of the Whole of Government Accounts return was also delayed and protracted this year.</p> <p>Although the IFRS changes will not be an issue in 2011/12, the service provider (Mouchel) has acknowledged the need to avoid a repeat of the problems in 2010/11. An action plan has been prepared which addresses the staffing and technical issues which arose.</p>	<p>We will review the closedown arrangements and liaise with the Finance team over progress and monitoring of the action plan agreed with the service provider. This will be done through the continuation of regular liaison meeting with Finance. Your staff will again be invited to attend the final accounts workshops held by the Commission in early spring 2012.</p> <p>The timing and elapsed period for the final accounts visit also will be reviewed to ensure there is sufficient time for quality assurance and to minimise the impact of the audit on finance staff, including the service provider.</p> <p>We have also drafted an audit protocol which addresses other issues which arose last year. These can be summarised as:</p> <ul style="list-style-type: none"> ■ slow responses to some audit queries and failures in communication; ■ basic errors of understanding and interpretation relating to asset valuations and cut off testing; and ■ the scope to improve some aspects of audit evidence within working papers with more focus on providing prime documentation.
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Authority is required to value PPE at fair value (with some exceptions). Last year we identified significant errors relating to in year asset revaluations of schools. These were basic errors linked to the staffing and technical issues referred to above, and therefore the risk remains that valuations reported in the financial statements may be materially misstated.</p>	<p>We will review accounting estimates, including the arrangements for instructing your valuer, and carry out procedures to determine and test the reliance we can place on the work of the valuer.</p> <p>We will need to carry out additional tests of detail on asset valuations and the associated depreciation calculations, including academy schools. The impact of the latter on the CI&ES will also be reviewed as part of our testing.</p>

Risk

Additional risks arise from the creation of many more academy schools in 2011/12 which will impact on asset valuations and revenue transactions in the Comprehensive Income and Expenditure Statement (CI&ES).

Audit response

Heritage Assets

The CIPFA Code for 2011/12 sets new requirements for how councils should account for heritage assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Lincolnshire County Council this is likely to include some buildings and a range of archives and collections with a total estimated value of over £27m.

I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and the Code, and that the financial statements are not materially misstated.

Testing strategy

My audit involves:

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

I have sought to:

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

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

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Purchase Ledger. Schools audit visits.	Purchase Ledger top up testing. Sales ledger. General ledger. Walkthrough all material systems and assess controls.	None	See below. Liaison arrangements and initial correspondence will be started in early 2012.	See below. We will consider the advantages of early substantive testing if this provides a more efficient approach.
Final visit	Schools accounting consolidation.	None	None	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary (PWC). Valuation of property, plant and equipment including agricultural property – Internal and external valuers (Mouchel and Savills) and our own valuer (Gerald Eve).	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 Authority's arrangements to secure economy, efficiency and effectiveness.

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

- securing financial resilience – focusing on whether the Authority 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 Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of risks

I have considered the risks that are relevant to my value for money conclusion and identified the following risks that I will address through my work. All are specific risks but fall within the wider impact of the Comprehensive Spending Review (CSR) on your financial resilience which is a longer term significant and ongoing risk.

Table 3: **Risks**

Risk	Audit response	Separate audit output?
The impact of the Comprehensive Spending Review (CSR) on your financial resilience is a key risk. Specific risks around the development of community budgets	Your updated financial plan and strategy reflect improvements in efficiency and effectiveness and your savings plan is on track. We will continue to monitor both specific risks and the wider developments over the coming year as part of our	No

Risk	Audit response	Separate audit output?
<p>and the 'Whole Place' pilot will also need to be managed within the constraints of the CSR, as will the impact of the increasing number of academy schools which threatens the viability of support services currently provided to schools.</p>	<p>VFM conclusion work but this should not require any significant additional work over and above the ongoing monitoring and assessment of your financial health over the short and medium term.</p>	
<p>Continuing overspending on Adult Social Care and related problems with the commissioning of these services has been reported in our 2010/11 annual audit letter. These issues remain a potential risk to the achievement of economy, efficiency and effectiveness but are the subject of management action.</p>	<p>We will continue to monitor the position through the reporting process to those charged with governance (the Audit Committee) and through our regular liaison meetings with the senior finance team. This should not require any significant additional work.</p>	<p>No</p>

Key milestones and deadlines

The Authority 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	December 2011 – March 2012	Interim Audit Memorandum
Opinion: receipt of accounts and supporting working papers	June 2012	-
Opinion: substantive testing	Late July 2012 – Early September 2012	Final Accounts Memorandum
Value for money	Ongoing	VFM conclusion within Auditor's report
Present Annual Governance Report at the Audit Committee	September 2012	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
Tony Crawley District Auditor	t-crawley@audit-commission.gov.uk 0844 798 4098	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with senior managers.
Mike Wood Audit Manager	m-wood@audit-commission.gov.uk 07946 592339	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Louise Stables Team Leader	l-stables@audit-commission.gov.uk 07815 879561	Manages the team on a day to day basis in conjunction with the Audit Manager

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 relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 6: **Threats and safeguards**

Threat	Safeguard
Niall Davidson Petch (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 (i.e. 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 safeguard has been approved by the previous Regional Head of Audit (Central Region), Delyth Morris, and will be kept under review.

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 £238,500, as set out in my letter of 1 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £238,500 which represents a 10 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).

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 Director of Resources and Community Safety 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. The key area for improvement is the closedown process referred to earlier in this plan. This will require full implementation, by the service provider and the finance team, of the current action plan to address staffing and technical issues as well as the additional issues raised in our audit protocol. We will also discuss the extension of the reliance we currently place on systems control testing by internal audit.

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 7: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£238,500	£265,000	-£26,500
Additional fee (estimated)	0	£10,000	-£10,000
Certification of claims and returns	£5,000	£5,217	-£217
Non-audit work	0	0	0
Total	£243,500	£280,217	-£36,717

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 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.
- The problems with the 2010/11 closedown and Whole of Government Accounts will be addressed by the action plan that officers have prepared.
- 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 Authority 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 Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority 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 Authority's systems of internal control that supports the achievement of the Authority'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.

Internal control

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

