

# Audit plan

Salford City Council

Audit 2011/12



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# Introduction

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**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 and Accounts Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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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>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. You may be unable to identify and account for all heritage assets because of difficulties in estimating values and confirming ownership.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities the Council has principally for its contribution to knowledge and culture.</p>	<p>I will evaluate the management controls you have in place to recognise and value heritage assets. I will also undertake testing to check the Authority has followed FRS 30 and the Code to account for heritage assets.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>You must value PPE at fair value (with some exceptions). The tough economic climate could continue to have a significant impact on values. This may result in asset values being misstated.</p>	<p>Review of controls for making estimates, including arrangements for instructing your valuer and controls over information provided to valuer.</p> <p>Review of the bases and methods of valuation used for Council houses.</p> <p>Tests of detail on valuations and associated depreciation calculations.</p> <p>I will also take account of up-to-date technical guidance in this area and consider as part of my regular final accounts liaison meetings.</p>
<p>Implementation of new Business Rates system.</p>	<p>Test of detail on operation of the new system and on migrating financial information from the old system to the new one.</p>
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government by 28 March 2012. This will adjust the HRA debt of the Authority. Payments from government will mostly be to redeem an equal percentage of all PWLB debt held by the Authority. Because of the complexity, importance and timing of the HRA reform there is risk the financial statements will be materially misstated.</p>	<p>Review of management oversight of HRA reforms and transactions required by the Authority.</p> <p>Tests of detail on the settlement payment or receipt.</p>

Risk	Audit response
<p>Capability and capacity following significant staffing reductions under the CSR savings programme.</p>	<p>Review of the Council's risk register and risk management arrangements (see also Table 3 Value for Money significant risks).</p> <p>Monitoring and reporting of the impact of staffing reductions.</p> <p>Discussions with the Monitoring Officer, City Treasurer and Head of Audit at liaison meetings.</p> <p>Regular discussion with Those Charged With Governance at the Audit and Accounts Committee.</p> <p>Confirmation of accounts closure arrangements and detailed programme for the 2011/12 statements.</p>

## Group accounts

I am responsible for the direction, supervision and performance of the group audit. I may contact the auditors of Salix Homes Ltd, one of the components of the group accounts, as part of my audit procedures. The auditors of Salix Homes Ltd. are Beever and Struthers.

Please discuss with me any concerns about me contacting component auditors.

## Testing strategy

My audit involves:

- liaison with your internal auditors and review of their work as appropriate;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- rely, where appropriate, on the work of your internal auditors; and
- maximise the work that I can complete before you prepare your accounting statements.

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

Table 2: **Proposed work**

	<b>Controls testing</b>	<b>Reliance on the work of other auditors</b>	<b>Reliance on work of experts</b>	<b>Substantive testing</b>
Interim visit	General Ledger and other material systems Information Technology	Internal Audit work where relevant		Investments and other non-current assets – ownership Payroll Pooled budgets
Final visit	Year end controls testing of all material systems	Pensions assets and liabilities - Greater Manchester Pension Fund (GMPF) auditor Salix Homes Ltd. - Beever and Struthers	Pension fund liabilities and assets - GMPF Valuation of property, plant and equipment – Urban Vision Actuarial investigation of insurance claims and reserves - AON Global Ltd.	All material accounts balances and amounts Year-end feeder system reconciliations Disclosures in note to the accounts 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 significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response	Separate audit output?
Delivery of approved savings measures of £39.915 million in 2011/12, rising to £46.735 million in 2012/13 and £54.784 million in 2013/14. Identification of further annual savings of £39.3 million spread across 2012/13 to 2014/15 to achieve a balanced budget in each year.	Monitor the budget position. Examine medium term financial planning. Review arrangements to monitor and report on the delivery of approved savings. Review arrangements to identify future savings measures. Confirm strategic approach to approving the minimum level of	Annual Governance Report

Risk	Audit response	Separate audit output?
<p>The Council expects Children’s Services expenditure against the Dedicated Schools Grant to exceed budget by £3.186 million at 31 March 2012. The Council is developing a new SEN strategy to address the area of overspending.</p> <p>On 31 March 2011 there were 18 schools budgets in deficit. The deficits totalled £6.568 million. The Council has agreed recovery plans with the schools in deficit.</p>	<p>General Fund reserves.</p> <p>Monitor arrangements for developing and implementing:</p> <ul style="list-style-type: none"> <li>■ the new SEN strategy; and</li> <li>■ schools budget monitoring and reporting framework, including delivery of agreed recovery plans.</li> </ul> <p>Identify and assess performance monitoring arrangements in practice.</p>	<p>Annual Governance Report</p>
<p>Impact on capacity and capability from staffing reductions under the CSR savings programme.</p>	<p>Review of risk register and risk management framework.</p> <p>Monitoring and reporting of the impact of staffing reductions.</p> <p>Discussions with the Monitoring Officer, City Treasurer and Head of Audit at liaison meetings.</p> <p>Regular discussion with Those Charged With Governance at the Audit and Accounts Committee.</p>	<p>Annual Governance Report</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	February to June 2012	Interim report (if required)
Opinion: receipt of accounts and supporting working papers	July 2012	
Opinion: substantive testing	February to September 2012	
Value for money: risk assessment and local work	January to September 2012	
Present Annual Governance Report at the Audit & Accounts Committee	26 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

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

Table 5: **Audit team**

Name	Contact details	Responsibilities
Mick Waite District Auditor	<a href="mailto:m-waite@audit-commission.gov.uk">m-waite@audit-commission.gov.uk</a> 0844 798 7044	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Tommy Rooney Audit Manager	<a href="mailto:t-rooney@audit-commission.gov.uk">t-rooney@audit-commission.gov.uk</a> 0844 798 7042	Manages and coordinates the different elements of the audit work. Key point of contact for the City Treasurer.
Richard Tembo Principal Auditor	<a href="mailto:r-tembo@audit-commission.gov.uk">r-tembo@audit-commission.gov.uk</a> 0844 798 7326	Team leader and day to day coordinator on specific pieces of audit work. Key contact for final accounts.
Sylvia Luscombe	<a href="mailto:s-luscombe@audit-commission.gov.uk">s-luscombe@audit-commission.gov.uk</a> 0844 798 7303	Team leader, day to day coordinator and key contact for certifying claims and returns.

# Independence and quality

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## 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](mailto: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

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**The fee for the audit is £302,060, as set out in my letter of 12 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £302,060 which represents a 10.5 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).

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 City Treasurer 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 proposed fee is set at the Audit Commission's scale fee which assumes good quality of final accounts and working papers, and prompt responses to audit queries. Last year I charged £2,000 above the scale fee for additional work required on costing and charging for issue of private hire licences. The Council has agreed to address the issues I identified from that work and so I do not anticipate a need to carry out more work in this area this year. There are no other evident weaknesses to address to reduce the fee. As in previous years, I will discuss and agree with officers both the timetable and working paper requirements. I will also work with your officers to identify any scope to improve the efficiency of the audit.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for certification of claims and returns.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£302,060	£337,622	-£35,562
Certification of claims and returns	£64,120	£74,538*	-£10,418
<b>Total</b>	<b>£366,180</b>	<b>£412,160</b>	<b>-£45,980</b>

\* Actual fee as at November 2011. Final fee to be confirmed once December 2011 grants work is complete.

# 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

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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 co-operation of other auditors; and
  - the financial statements are prepared to a good standard with clear supporting evidence.
- 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 statement 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 2 July 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- there are no questions asked or objections made by local government electors.

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

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts the Authority must prepare. These 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 completing 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 about 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 an Authority and its subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, 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.

