

Derby City Council

Audit Plan 2011/12

January 2012



An overview of your 2011/12 Audit Plan

This is our audit plan for the financial year 2011/12 for Derby City Council (the Council). It documents the work that we will carry out in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in April 2011. In setting this fee, we assumed that the general level of risk in relation to the audit would not be significantly different from that identified for 2010/11. Following the completion of the 2010/11 audit we have updated our accounts audit risk assessment for 2011/12

See
Accounts audit

The new approach to local value for money audit work was introduced by the Audit Commission in 2010/11. In 2011/12 we will continue to give our value for money conclusion based on two reporting criteria specified by the Audit Commission

See
Value for
money audit

As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us

See
Engagement team

We have used the published 2011/12 Audit Commission scale of fee for the Council as our proposed fee

See
Audit fee

You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council

See
Outputs and
Timeline

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention

See
Appendix A

Accounts audit - introduction

Introduction

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

The Council's responsibilities

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

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

Our responsibilities

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

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



Accounts audit - risk assessment

Accounting risks and planned audit response

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

Table 1: Accounting risks and planned audit response

Key risk	Audit areas affected	Audit approach
Accounting for schools	Property, plant and equipment	<ul style="list-style-type: none">Following consultation with auditors and councils, CIPFA will issue guidance on accounting for schools for the preparation of 2011/12 financial statements. We will discuss the finalised approach with officers at the earliest opportunity and review the impact on the Council's accounting policies and financial statements
Accounting for heritage assets	Property, plant and equipment	<ul style="list-style-type: none">The Council will be required to disclose heritage assets as a separate category of assets for the first time in its 2011/12 financial statements. We will provide clarification to the Council on the required accounting treatment and discuss the proposed accounting policyWe will review the Council's working papers to gain assurance that heritage assets have been identified and treated correctly in the financial statements
Revaluation of fixed assets and valuation of Council dwellings	Property, plant and equipment	<ul style="list-style-type: none">We will review any valuations undertaken to ensure that the methodology is compliant with International Financial Reporting Standards and that the Council has fully documented the key judgements that have a significant influence on the valuation, for example house price indices

Accounts audit - risk assessment (cont.)

Table 1: Accounting risks and planned audit response (cont.)

Key audit risk	Audit areas affected	Audit approach
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> • The Council faces significant financial challenges in 2011/12 and beyond as it balances serving the needs of the local population against reduced funding from Central Government • We will review the Council's financial performance for the year against its agreed budget and will monitor performance through discussions with officers and reviewing minutes • We will also consider the use of general reserves and the adequacy of these for the future
Income Recognition	Housing benefit and council tax subsidy	<ul style="list-style-type: none"> • We are only just reaching a conclusion on our certification of the Council's 2010/11 Housing Benefit and Council Tax Benefit Subsidy claim, where a considerable clawback of subsidy by the Department of Work and Pensions is expected • We will consider the adequacy of the action taken by the Council to improve the accuracy of the 2011/12 return and whether additional testing is required to enable us to conclude on the related transactions recorded in the Statement of Accounts for 2011/12
Follow up of 2010/11 findings	All areas of the financial statements	<ul style="list-style-type: none"> • We will follow up the Council's progress in implementing our agreed findings from last year's audit and will report out findings to the Audit and Accounts Committee

Our Approach

We will utilise Voyager, our audit software package, to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to optimise our opinion audit strategy. Voyager also helps us to comment constructively on your systems of internal control.

We will discuss all matters arising with officers to understand the basis of the weakness identified and what options are available to improve arrangements, for example mitigating controls or system modifications. Following which, we shall report our formal recommendations to the Audit and Accounts Committee.

Planning

- Updating our understanding of the Council through discussions with officers and a review of the quarterly revenue budget monitoring and performance monitoring reports

Controls evaluation

- Considering the work of internal audit and assessing the impact this may have on our audit strategy
- Reviewing the design and implementation of internal financial controls including IT controls, where these impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Assessing the Council's arrangements for complying with tax legislation and the Bribery Act
- Testing the operating effectiveness of selected controls

Substantive procedures

- Performing analytical review, if necessary
- Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
- Reviewing material disclosure issues in the financial statements

Completion

- Performing an overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit and Accounts Committee through our 'Annual Report to Those Charged With Governance'

Accounts audit - other issues

Whole of Government Accounts

We will review the Whole of Government Accounts consolidation pack prepared by the Council for consistency with the Council's accounts, to provide the requisite assurance to the National Audit Office.

Certification of Grants and Returns

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

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

We will report in full to the Council on conclusion of our certification work.

National Fraud Initiative

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

Annual Governance Statement and External Reporting

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

We will assess the Council's external reporting, through the 2011/12 Annual Governance Statement and explanatory foreword to the accounts, against best practice and will use our benchmarking tool, containing data from over 200 UK local authorities, to measure the Council against existing sector practice. This will enable us to identify areas where the Council is performing well and areas where there is scope to improve external reporting.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

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

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

Value for money audit

Introduction

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

2011/12 VFM conclusion

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

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

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

Code criteria

The Council has proper arrangements in place for securing financial resilience

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

Work to be undertaken

Risk based work focussing on arrangements relating to financial governance, strategic financial planning financial control. Specifically we will:

- undertake an in-depth review of the Council's medium term financial plan and the impact and effectiveness of the Council's 'one Derby, one council' programme
- undertake a follow up review of the plans implemented by the Council to strengthen its Audit and Accounts Committee arrangements
- consider the Council's financial performance against Local Government financial ratios.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any high risk areas identified.

Value for money audit (cont.)

Code criteria

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

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

Work to be undertaken

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

Specifically we will:

- apply our VFM benchmarking tool to the Council's 2010/11 performance to establish how well services performed during the year
- consider the impact of the 'one Derby, one council' transformational change programme and the cost savings achieved through re-engineering processes and realigning services.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any high risk areas identified.

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

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



Engagement team - key contacts

Your main audit team is based in Birmingham and its members are all public sector specialists.

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

Jon Roberts
Engagement Lead
T 0121 232 5410
E jon.roberts@uk.gt.com

- Jon is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. Jon will be a key contact for the Chief Executive, the Strategic Director of Resources, other senior Council officers and the Audit and Accounts Committee
- Jon is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion

Mark Surridge
Senior Manager
T 0121 232 5424
E mark.n.surridge@uk.gt.com

- Mark is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan
- Whilst a new member of the audit team, Mark is an established member of the Birmingham public sector audit team and has over ten years' experience working with local authorities in an audit and assurance capacity
- Mark reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and members

Richard Moist
Assistant Manager
T 0121 232 5397
E richard.moist@uk.gt.com

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

Engagement team - key contacts (cont.)

Our high-quality audit and assurance service is tailored to identify where improvements can be made to governance processes, the assurance framework and performance management, to help deliver value for money and move organisations towards best practice.

Ian Barber
**Performance Specialist
Senior Manager**
T 0121 232 5357
E ian.m.barber@uk.gt.com

- Ian is our regional Value for Money lead and will oversee and provide support on the Value for Money element of the audit

Vivien Holland
**Performance Improvement
Manager**
T 0121 232 5117
E vivien.holland@uk.gt.com

- Vivien advises public sector organisations ensuring they achieve value for money, combined with giving bodies the tools and knowledge to continue this work for themselves

Negat Sultan
IT Senior Manager
T 0116 257 5590
E negat.sultan@uk.gt.com

- Negat is responsible for reviewing the Council's IT systems that underpin the financial accounts process
- Negat also takes the lead on any additional work required in areas such as data quality and security

Audit fee

What is the scale audit fee?

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

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

How your scale audit fee is calculated

The Audit Commission has published a scale fee for all authorities. This scale fee is based on the 2010/11 fee, which reflected our assessment of risk and complexity, and has been reduced by over 7%, to reflect the work programme for 2011/12 as mandated by the Audit Commission.

Variations to the scale audit fee

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

2011-12 audit fee

Your external audit fee for 2011/12 is £315,000 (£340,000 in 2010/11). This is the same as the indicative fee communicated to you in April 2011, and represents a more than 7% reduction on last year.

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

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

Table 2: 2011/12 audit fee

Audit area	Planned fee 2011/12	Actual fee 2010/11
Accounts, including WGA	£ 225,000	£ 250,000
VFM conclusion	£ 90,000	£ 90,000
Total audit fee	£ 315,000	£ 340,000

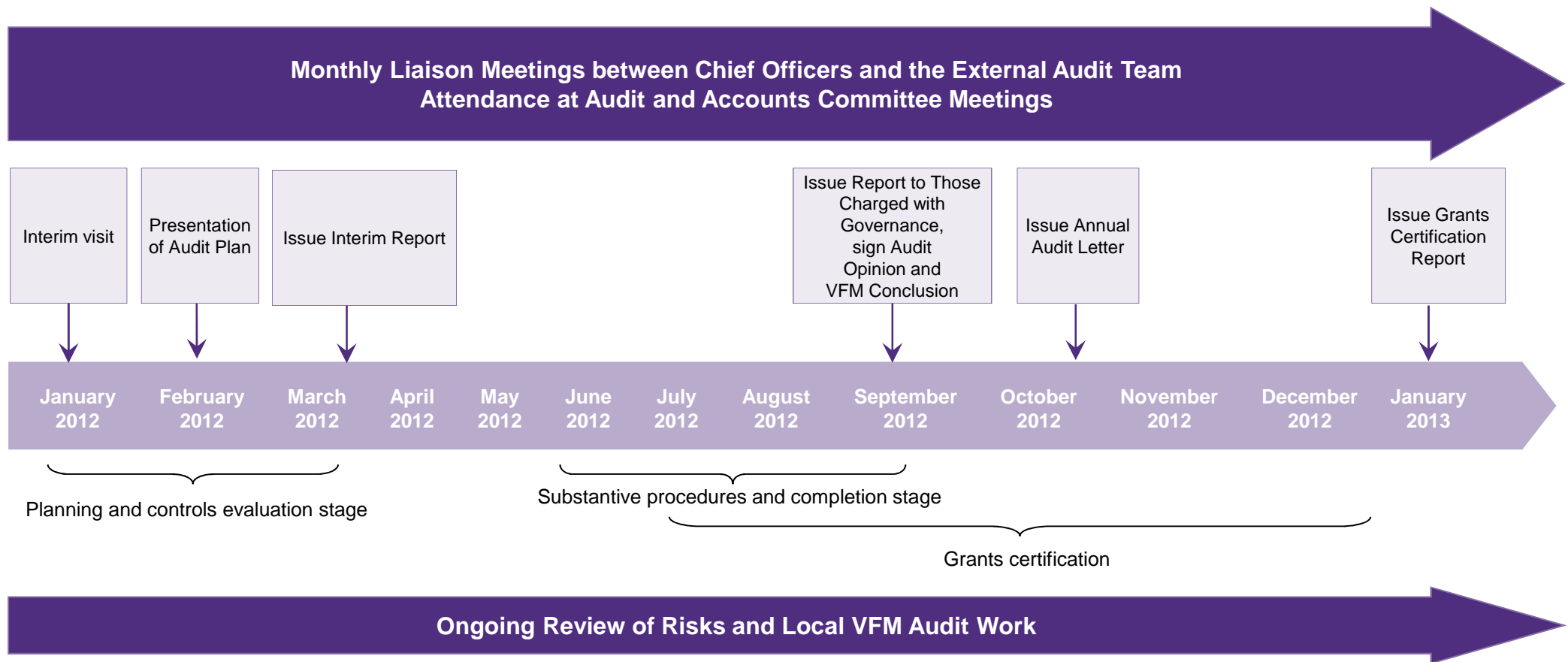
Outputs

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

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

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> • Outline audit approach for the accounts and VFM audits • Identify initial high risk areas and our planned response • Confirm Plan with Audit and Accounts Committee 	February 2012
Interim Audit Report	<ul style="list-style-type: none"> • Outline our audit strategy on conclusion of controls work • Review risks and update planned response accordingly • Highlight focus areas for the audit 	June 2012
Report to Those Charged with Governance (ISA 260)	<ul style="list-style-type: none"> • Highlight key issues arising from the audit and the resolution of these • Communicate adjusted and unadjusted audit differences • Make recommendations for improvement resulting from audit procedures 	September 2012
Auditor's Reports	<ul style="list-style-type: none"> • Report on Derby City Council's financial statements • Report on Derby City Council's VFM conclusion 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> • Short summary of the key issues arising from our 2011/12 audit 	October 2012
Grants Claim Certification	<ul style="list-style-type: none"> • Highlight key issues arising from our grants certification work • Make recommendations for improvement 	January 2013

Timeline



Appendices

Appendix A

Independence and objectivity

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

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

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

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

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

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

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



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