

Audit plan

Halton Borough Council

Audit 2011/12



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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 Business Efficiency Board, 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 Council 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 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 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: **Audit risks**

| Risk | Audit response |
|---|--|
| <p>Mersey Gateway Project</p> <p>The Council has established a development cost budget of £12.37 million for the Mersey Gateway project covering the period January 2011 to April 2013. It has classified the majority of these costs as capital. The accounting treatment is currently being considered by my audit team. If more of the expected costs are deemed to be revenue rather than capital in nature it will be a further pressure on the Council's 2011/12 and 2012/13 budgets. (Significant risk)</p> | <p>I will review the Council's proposed accounting treatment against the financial reporting standards, including discussion of the principles applied with the Council's external financial advisers.</p> <p>I will test a sample of expenditure incurred in 2011/12 to ensure it is capital in nature.</p> |
| <p>Financial pressures</p> <p>The Council continues to face significant financial pressures. In year monitoring reports indicate the Council is in a good position to achieve its approved 2011/12 budget reductions of £13.8 million. However, the pressures continue with a budget gap for 2012/13 of £15 million.</p> | <p>I will monitor the Council's overall arrangements to maintain its financial position.</p> <p>I will review management oversight of material accounting estimates and changes to accounting policies.</p> <p>I will review in-year financial reporting compared with the year-end financial position.</p> <p>I will carry out tests on year-end journals, accruals, provisions and cut-off (the allocation of income and expenditure between financial years.)</p> |
| <p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to identify, appropriately value and account for all heritage assets.</p> <p>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 Halton BC this is likely to include your civic regalia, works of art and other cultural assets.</p> | <p>I will evaluate the management controls in place to recognise and value heritage assets.</p> <p>I will also undertake testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p> |

Risk

Valuation of Property, Plant and Equipment (PPE)

The Council is required to value PPE at fair value (with some exceptions). There is a risk that the values reported in the financial statements will be materially misstated due to:

- valuation and depreciation values include an element of subjectivity and estimation which, when applied to total PPE balance of £338 million gives rise to an inherent risk;
- the risk that valuations between planned revaluation dates are not updated to reflect material changes since the last revaluation (a fifth of the Council's asset base is revalued each year);
- failure to derecognise the carrying value of assets or components that are replaced or restored; and
- in 2010/11 there was no year end reconciliation between the general ledger and the asset register.

Audit response

I will review controls over establishing estimates, including arrangements for instructing your valuer and controls over information provided to the valuer.

I will review your procedures for reliance on the work of the valuer.

I will carry out tests of detail on valuations and associated depreciation calculations.

I will review and test the Council's arrangements for updating valuations, de-recognising relevant components and reconciling the general ledger to the asset register systems.

Schools

In most local authorities schools are managed through a variety of governance arrangements. There are also some schools which continue (because of timing) to be funded through the Building Schools for the Future programme. The differences in these arrangements have implications for the accounting treatment. In 2009/10 I requested your accounts be amended to reflect the correct accounting treatment for several voluntary aided and voluntary controlled schools. Schools are a material part of the Council's overall PPE balance. There may be risk that the Council has misstated its PPE due to the incorrect inclusion or omission of schools in its balance sheet.

I will review the Council's consideration of schools and the IAS 16 recognition criteria and consistency with the accounting policy.

I will test the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.

| Risk | Audit response |
|---|--|
| <p>Upgrade to the general ledger system (Agresso)</p> <p>The general ledger system is being upgraded in January 2012. This will involve significant changes to both the accounts payable and accounts receivable systems. There is a risk that system controls may not be effective.</p> | <p>I will review management oversight of the upgrade process.</p> <p>I will test detail on the operation of the accounts payable and accounts receivable systems pre and post upgrade.</p> <p>I will test access levels within the upgraded systems.</p> |

Group accounts

The Council is the majority shareholder in Halton Borough Transport (HBT) Ltd and as such consolidates the company accounts into its financial statements. I am responsible for the direction, supervision and performance of the group audit. The bus company is the only component to the group and it is not material to the Council's financial statements. As such I limit my audit work to an assessment of the group boundary controls, analytical review and agreement to HBT's audited accounts.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- 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:

- 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, overleaf.

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 | Non-domestic rates Treasury management Council tax Cash and bank | General ledger/journals. Accounts receivable/debtors. Accounts payable/creditors. Housing and council tax benefit. Payroll. Property, plant and equipment (PPE). Supporting people payments. | | | Investments and other non-current assets. Loans – third party confirmation. Pension contributions. |
| Final visit | Annual Governance Statement | | Pensions assets and liabilities – auditor to Cheshire Pension Fund (Audit Commission). | Pensions liabilities and assets – Hyman’s and our own consulting actuary. Valuation of property, plant and equipment – Halton BC’s in-house valuer. Fair value of loans – portfolio valuation provided by Sector. | 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 Council's arrangements to secure economy, efficiency and effectiveness.

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

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant 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? |
|---|--|---|
| Financial resilience In addition to delivering its remaining budget reductions for 2011/12, the Council has estimated a funding gap of £39 million for the three-year period 2012/13 to 2014/15. The savings needed for the current financial year total £15 million. | I will consider the robustness of the Council's arrangements for effectively managing its financial risks and ensuring a stable financial position. This will include updating my assessment of the Council's processes in relation to financial governance, strategic financial planning and financial control. | No – key findings will be reported in the Annual Governance Report. |

| Risk | Audit response | Separate audit output? |
|---|---|--|
| | <p>I will review the Council's Medium Term Financial Strategy updates, and consider the reasonableness of assumptions.</p> <p>I will monitor the delivery of agreed savings and efficiency plans in 2011/12 and 2012/13.</p> | |
| <p>Mersey Gateway</p> <p>The Mersey Gateway project is a significant project for the Council, and affordability of this project continues to be a risk. The Council received written confirmation of conditional funding approval for the project in October 2011, which triggered the start of the formal procurement process. The annual unitary charge payable to the operator will be partly funded by the Government's availability support grant, with the balance funded by toll revenues. The Council retains the toll revenue risk, which is key element of the affordability of the project.</p> | <p>I will continue to review your arrangements for managing the risks associated with the project, and consider their reasonableness.</p> <p>I will liaise closely with Internal Audit and place reliance upon their work on your procurement arrangements.</p> | <p>No – key findings will be reported in the Annual Governance Report.</p> |
| <p>Capacity</p> <p>At the start of the 2011/12 financial year, and as part of its efficiency programme, the Council moved from a four to three directorate structure. At the same time a number of staff left the organisation through redundancy and/or early retirement. This loss of corporate knowledge and a reduced headcount at a time of significant organisational change and external challenge means capacity is stretched. This may impact upon the Council's ability to deliver services and achieve its objectives.</p> | <p>I will consider the effectiveness of your revised arrangements, including how well the Council identifies and mitigates associated risks, through meetings with officers, review of committee minutes and review of internal audit reports.</p> | <p>No – key findings will be reported in the Annual Governance Report.</p> |

| Risk | Audit response | Separate audit output? |
|--|---|--|
| <p>Building Schools for the Future (BSF)</p> <p>Although the national BSF programme was cancelled during 2010/11, three of the Council's schemes were allowed to continue – Halton High (now an Academy), Wade Deacon High and The Grange. Internal audit reported on the Council's BSF arrangements in May 2011 and gave a 'substantial assurance' rating. The schemes are significant in terms of cost and service delivery and it is important that the Council ensures that value for money continues to be achieved.</p> | <p>Using Internal Audit's work as a basis, I will consider the effectiveness of your arrangements, including how well the Council manages the risks associated with the BSF programme and how it continues to ensure value for money is being achieved.</p> | <p>No – key findings will be reported in the Annual Governance Report.</p> |

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

| Activity | Date | Output |
|--|--------------------------|--------------------------|
| Opinion: controls and early substantive testing | 3 January to 30 May 2012 | n/a |
| Opinion: receipt of accounts and supporting working papers | 1 July 2012 | n/a |
| Opinion: substantive testing | 1 July – 30 August 2012 | n/a |
| Present Annual Governance Report at the Audit Committee | By 30 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 | By 30 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 |
|-----------------------------------|---|--|
| Mike Thomas District Auditor | m-thomas@audit-commission.gov.uk 0844 798 7043 | Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive. |
| Colette Williams Audit Manager | c-williams@audit-commission.gov.uk 0844 798 3572 | Manages and coordinates the different elements of the audit work. Key point of contact for the Operational Director Finance. |
| Judith Smith Principal Auditor | j-smith@audit-commission.gov.uk 0844 798 3596 | Supports the Audit Manager in coordinating the different elements of the audit work and supervising the on site team. |

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

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

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £232,204, as set out in my letter of 12 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £232,204 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. The Mersey Gateway project is a complex scheme unique to Halton BC. I have included a small element of time within the 2011/12 plan to cover our audit work in this area. If our input exceeds this, or if for example we are unable to rely upon Internal Audit's review of your procurement arrangements, we will need to consider an additional audit fee. We will discuss this in the first instance with the Operational Director Finance.

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 Operational Director Finance 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. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

| | 2011/12 proposed | 2010/11 actual | Variance |
|-------------------------------------|------------------|----------------|----------------|
| Audit | 232,204 | 258,005 | -25,801 |
| Certification of claims and returns | 33,852 | 29,570 | +4,282 |
| Non-audit work | 0 | 0 | 0 |
| Total | 266,056 | 287,575 | -21,519 |

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

| Area | Requirement | How we comply |
|---|--|--|
| Business, employment and personal relationships | <p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p> | <p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p> |

| Area | Requirement | How we comply |
|-------------------------------------|---|---|
| Long association with audit clients | The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years. | The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met. |
| Gifts and hospitality | The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment. | All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval. |
| Non-audit work | <p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p> | All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised. |

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- 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 Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 1 July 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.

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, 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.

