

Audit plan

Crawley 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 Audit and Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of your 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 your accounts give a true and fair view.

International Standards of Auditing (ISA's) require auditors to undertake sufficient testing to be satisfied that for all material transactions and balances the following assertions are met.

Table 1: **Assertions**

Assertion	ISA (UK&I) 315 Definition	Assertion	ISA (UK&I) 315 Definition
Occurrence	Transactions and events that have been recorded and relate to the Authority.	Classification	Transactions and events have been appropriately presented and categorised in the correct codes and headings.
Completeness	All transactions and events that should have been recorded have been recorded.	Existence	Assets, liabilities and equity interests exist

Assertion	ISA (UK&I) 315 Definition	Assertion	ISA (UK&I) 315 Definition
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.	Rights and Obligations	The Authority holds or controls the rights to assets, and liabilities are obligations of the Authority.
Cut Off	Transactions and events have been recorded in the correct accounting period.	Valuation & Allocation	Assets, Liabilities and equity interests are included in the financial statements at appropriate amounts and any resulting valuations or allocation adjustments are appropriately recorded

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. Materiality can be defined as 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement'.

Identifying audit risks

I need to understand how you identify any risk of material misstatement (whether due to fraud or error) in your accounting statements. I do this by:

- identifying your business risks, including assessing your own risk management arrangements;
- considering your financial performance;
- 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 your information systems.

Identification of significant and specific risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below. As the audit progresses I will refresh my risk assessment. I may identify more risks, or reclassify certain risks, or decide some risks are no longer relevant. If there are any changes to my risk assessment, I will report these to you.

At this stage of my planning work I have identified one significant risk . Significant risks require special audit attention under the auditing standards.

Table 2: **Significant risk**

Risk	Audit response
<p>HRA (Housing Revenue Account) self-financing</p> <p>Under self-financing you will be required to take a calculated share of the national HRA debt onto its balance sheet. In return you will no longer pay negative subsidy to the Department for Communities and Local Government (DCLG). Although the new system of HRA self-financing will not commence until 12/13, borrowing will be secured and will come onto your balance sheet at the end of March 2012. This will impact on the 2011/12 financial statements. Your final determination is £263,101,000. There is a risk that the financial statements do not properly account for:</p> <ul style="list-style-type: none">■ the payment to or from central government;■ the loan from the Public Works Loan Board (PWLB);■ the statutory requirements relating to the HRA ring-fence; and■ for non-cash transactions when calculating related cash flows from transactions and balances reported in the Comprehensive Income and Expenditure Account (CIES) and Balance sheet. <p>This is a new issue for you for 2011/12. As the amounts involved are highly material and affect a number of areas within the financial statements, there is a high risk of material mis-statement.</p>	<p>I will evaluate the management controls you have in place to take on and account for the debt from 28 March 2012.</p> <p>To gain assurance over the entries relating to the move to self-financing shown in your financial statements, I will undertake testing to ensure that you have correctly accounted for the following in your financial statements:</p> <ul style="list-style-type: none">■ the payment to or from central government;■ the loan from the Public Works Loan Board (PWLB);■ the statutory requirements relating to the HRA ring-fence; and■ for non-cash transactions when calculating related cash flows from transactions and balances reported in the Comprehensive Income and Expenditure Account (CIES) and Balance sheet.

I have also identified four specific risks.

Table 3: **Specific risks**

Risk	Audit response
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. As this is a new requirement, there is a risk that you may not be able to identify and account for all heritage assets within the time available.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that you hold and maintain principally for its contribution to knowledge and culture. This may include historical monuments, museum artefacts or art works.</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 that you have accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Code requires you to value PPE at fair value (with some exceptions). The valuation is a complex process and this means there is a risk the financial statements may be materially misstated because of:</p> <ul style="list-style-type: none">■ applying the wrong valuation basis;■ failing to derecognise the carrying value of assets or components of assets that you replace or restore;■ using inappropriate asset lives, residual values, or cost or fair value; or■ failing to apply the Code's requirements for componentisation for depreciation purposes.	<p>To gain assurance over the valuation of property, plant and equipment shown in your financial statements, I will:</p> <ul style="list-style-type: none">■ review your arrangements for instructing your valuer and controls over information provided to valuer;■ carry out procedures to assess whether I can place reliance on the work of the valuer;■ carry out tests of detail on valuations and associated depreciation calculations; and■ use my own consulting valuer, Gerald Eve, to inform my review of your valuer.

Risk

IAS 19 – pension scheme assets and liabilities

Your financial statements will contain several material entries for retirement benefits, including the pension scheme assets and liabilities. On 1 February 2012, staff who worked at the Hawth Theatre transferred across to Parkwood Leisure under the new arrangement for operating the Theatre. These staff will either transfer out of the West Sussex Pension Fund or will remain in the Fund as deferred pensioners. The actuary will need to account for these changes in his assumptions. The valuation of these items is a complex process and this means there is a risk the financial statements may be materially misstated.

Finance department review

There has been a Finance department review. As a result there have been some changes to roles and responsibilities and one post was made redundant. In addition two other finance staff have left. There is a risk, which could become significant, that the quality and the timeliness of the financial statements may be affected.

Audit response

To gain assurance over the pension scheme assets and liabilities in the financial statements, I will:

- review management's arrangements for instructing the actuary and controls over information provided to the actuary;
- undertake procedures to rely on the work of the scheme actuary, Hymans Robertson, which include the use of my consulting actuary;
- obtain assurance from the actuary regarding the staff who have transferred out of the pension scheme and those whose pensions are deferred; and
- undertake tests to ensure you account for and disclose the pension scheme assets and liabilities within the financial statements.

I will continue have regular communication with officers to ensure that any delivery or quality issues are identified and resolved early.

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 I can undertake before you prepare your accounting statements.

Table 3 below shows the nature and timing of my proposed work:

Table 4: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General Ledger PAMS Debtors Housing Rents Cash and Bank Treasury Management	General Ledger PAMS Debtors Housing Rents Cash and Bank Treasury Management	None	None	Property, plant and equipment including HRA assets – ownership confirmation Property, plant and equipment – physical verification
Final visit	None	None	Pensions assets and liabilities – auditor to West Sussex Pension Fund	Pensions liabilities and assets – Hymans Robertson, your actuary and PwC, my consulting actuary. Valuation of property, plant and equipment including HRA assets – Wilks Head & Eve, your valuer and Gerald Eve, our own consulting valuer.	All material accounts balances and amounts Year-end feeder system reconciliations

Review of internal audit

Controls testing

Reliance on the work of
other auditors

Reliance on work of
experts

Substantive testing

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 National Audit Office specify the extent of my review and the nature of my report.

Value for money

I am required to conclude on your arrangements to secure economy, efficiency and effectiveness.

I base my conclusion on your arrangements on two criteria, specified by the Commission. These relate to your arrangements for:

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

Identification of value for money risks

I am currently undertaking my planning for my VFM conclusion work. To date, I have identified the following risks that I will address through my work. If I identify additional risks, I will tell you about these risks and my planned audit work at the next Audit and Governance Committee meeting.

Table 5: Risks

Risk	Audit response	Separate audit output?
<p>HRA (Housing Revenue Account) self-financing</p> <p>From 2012/13 interest costs and depreciation will become real charges to the HRA. Special discounted borrowing rates are being offered by the Public Works Loan Board (PWLB) for the new borrowing that needs to be taken on balance sheet. This will impact on your medium term financial plans and I expect to see financial modelling to ascertain the impact and inform your borrowing plans. The final determination for Crawley Borough Council is £263,101,000.</p> <p>You have previously been a debt free council but as a result of the move to a HRA self financing model from 1 April 2012, you will have to take on debt. As you are not familiar with holding debt, this could have a significant impact on your financial resilience if it is not well planned and managed.</p>	<p>I will consider your arrangements for planning and managing the debt within your medium term financial plans to ensure that you continue to demonstrate financial resilience.</p>	<p>I will report my findings in my annual governance report and annual audit letter</p>
<p>Financial settlement</p> <p>The main risk to financial resilience remains the continuing challenge of achieving a balanced budget over the medium term with reduced funding.</p>	<p>I will consider how you have managed your budget for 2011/12, given decreases in funding. I will also review your budget for 2012/13 and your medium term financial strategy to assess the realism and achievability of your plans.</p>	<p>I will report my findings in my annual governance report and annual audit letter</p>

Risk	Audit response	Separate audit output?
<p>Performance management</p> <p>In last year's Annual Governance Report, I noted that you were in the process of developing a revised approach to monitoring the Council's performance and value for money at corporate and member levels.</p>	<p>I will revisit your arrangements in this area to ensure that you have appropriate arrangements to ensure that members are kept informed of the value for money being delivered by the Council.</p>	<p>I will report my findings in my annual governance report and annual audit letter.</p>
<p>Risk management</p> <p>My planning work has identified that you are revising your approach to risk management. Currently, you are not maintaining a Strategic Risk Register and the Audit and Governance Committee are not receiving updates on risk management.</p>	<p>I will review your arrangements in this area to ensure that you have suitable policies and processes in place for identifying and managing your risks throughout the organisation.</p>	<p>I will report my findings in my annual governance report and annual audit letter.</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 6: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: planning	March 2012	Audit Plan
Opinion: controls and early substantive testing	February/March 2012	Report to Audit and Governance Committee if necessary
Opinion: receipt of accounts and supporting working papers	30 June 2012	N/a
Opinion: substantive testing	July/ August 2012	Annual Governance Report
Value for money	April 2012	Annual Governance Report
Present Annual Governance Report at the Audit and Governance Committee	25 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Report to the National Audit Office on your WGA return	By 30 September 2012	Assurance statement
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 7: **Audit team**

Name	Contact details	Responsibilities
Lizzie Peers Engagement Lead	l-peers@audit-commission.gov.uk 0844 798 1779	I am responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Emma Bryant Audit Manager	e-bryant@audit-commission.gov.uk 0844 798 1792	Emma manages and coordinates the different parts of the audit work. She is the key point of contact for the Director of Finance and Head of Finance, Revenues and Benefits.
Jessica Finney Team Leader	j-finney@audit-commission.gov.uk 0844 798 6113	Jessica team led the audit last year and has experience of auditing your financial statements. She will lead the on-site team in delivering the audit.

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 do not have any issues to bring to your attention at this time.

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 £143,640, as set out in my letter of 4 March 2011.

The audit fee

The Audit Commission has set a scale audit fee of £143,640 which represents a 5% decrease on scale 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 decrease resulting from the new approach to local VFM audit work; and
- a decrease 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 need to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with Head of Finance, Revenue and Benefits 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. I will inform you of any actions I identify.

Total fees payable

As well as 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 8: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£143,640	£151,200	£(7,560)
Certification of claims and returns	£43,600	£34,620	£8,980
Non-audit work	£0	£0	£0
Total	£187,240	£185,820	£1,420

Grant certification work is billed per diem at the published rates and is therefore the final fee payable is variable.

The 2011/12 fees for grant claim work are an estimate at this stage and was reported to you in my fee letter of 4 March 2011.

The 2010/11 figure is the actual fee charged based on the time taken and the skill mix used.

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 9: **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 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 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.
- senior officers undertake a robust quality assurance process before providing me with the draft financial statements
- 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 30 June 2012;
 - other information sought within agreed timescales; and
 - prompt responses to draft reports.
- local government electors do not ask any questions or make any objections to the financial statements.

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 Council is required to prepare, which report the financial performance and financial position of the Council 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 Council 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 Council's systems of internal control that supports the achievement of the Council'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 a Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council 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 Council. This term includes the members of the Council and its Audit and Governance 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 Council 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.

