

Audit plan

Cheshire East Borough Council

Audit 2011/12



Contents

Introduction.....	3
Accounting statements and Whole of Government Accounts.....	4
Value for money.....	8
Key milestones and deadlines	9
The audit team	10
Independence and quality	11
Fees	13
Appendix 1 – Independence and objectivity	15
Appendix 2 – Basis for fee.....	17
Appendix 3 – Glossary	18



Introduction

This plan sets out the work for the 2011/12 audit.

It 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 & Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the 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.

My audit planning is updated on a regular basis during the audit. If I identify any changes in my risk assessment as a result of this work, I will report my revised risk assessment to the Audit & Governance Committee.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. As I set out in my Annual Audit Letter, the Council is facing a significant financial challenge and is working hard to delivery its financial plans and savings. I have set out the impact of this challenge on my risk assessment in the table below.

Table 1: **Significant risks**

Risk	Audit response
In year financial pressures and their potential impact on reserves increases the risk of financial misreporting which may impact on the true and fair presentation of the financial statements. As a consequence I am also unable to rebut the presumption of fraud in income recognition.	<p>I will review the effectiveness of management controls, such as financial reporting and monitoring, in place to reduce the risks of financial misreporting and fraud in income recognition. My review will consider the scope for management override of these controls.</p> <p>I will undertake extended testing on:</p> <ul style="list-style-type: none">■ Income and expenditure for over and under-statement respectively; and■ Material journals for unusual transactions. <p>I will also review the:</p> <ul style="list-style-type: none">■ Application of accounting treatments used in preparing the accounts against the Council's stated accounting policies.■ Financial out-turn for the year against the Council's MTFP and planned use of reserves.

Following on from last year's audit, I have identified three specific risk areas:

- Accounts Closedown: Based on discussions with officers, I understand that there will be changes within the finance team, but that continuity in key staff involved in accounts closedown and preparation will be maintained. I will continue to track the situation and consider the impact on my audit of the accounts
- Collection Fund: Officers are working to address the weaknesses I identified in reconciliation controls within the Council Tax and NNDR systems and the accuracy of year end reports. I will review the outcomes of this work and assess whether further audit work is required.

- Oracle Access controls: The Council is working jointly with Cheshire West & Chester Council to strengthen access controls over the main financial ledgers. Officers plan to carry out testing to provide assurance that there have been no inappropriate or unauthorised accesses to the financial ledger. I will seek to place reliance on this testing as part of my audit of the accounts.

Testing strategy

My audit involves testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

As part of my pre statements testing I will:

- Undertake testing to confirm the material financial systems and controls in operation at Cheshire East Council and the financial shared service.
- Update my knowledge of the Council's control environment, including IT controls.
- Review actions taken by the Council to address the weaknesses in controls around revenues systems and access rights to the main ledger that I identified as part of last year's audit.
- Review and re-perform internal audit work testing of the operation of controls.
- seek to place reliance on the work of other auditors and experts.

As part of our ongoing support, my team will meet with Finance staff to discuss technical issues. We will also agree with you a schedule of working papers required to support the entries in the accounting statements.

My post statements testing involves substantive tests of transactions and material account balances at year end. I will seek to maximise the work that I can do before you prepare your accounting statements. In particular I have considered areas which are more technically complex or higher risk. The main areas where I would like to undertake early testing is:

- In year material journals
- Investments – ownership.
- Year-end feeder system reconciliations
- Material accounting estimates

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

Table 2: **Proposed work**

	Review of internal audit work	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General ledger NNDR Council Tax Housing Benefits Social care payments Foster Care payments			In year material journals Investments Material accounting estimates Year end Feeder system reconciliations
Final visit	Income from provision of social care	Pensions assets and liabilities – auditor to Cheshire Pension Fund	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary Valuation of property, plant and equipment – District Valuer and our own consulting Valuer – Gerald Eve	All material accounts balances and amounts

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 risks

In considering the risks relevant to my value for money conclusion, I will update my understanding of your arrangements focussing on the areas set out in Table 3. I will use this work to identify whether there are any specific risks to my conclusion that I will need to address through further local work.

Table 3: **Risk assessment**

	Audit response
The Council fails to deliver its planned budget and savings proposals	Review of <ul style="list-style-type: none">■ robustness of underlying budget assumptions■ monitoring and reporting of core budget and savings proposals.
Planned changes in services do not effectively deliver anticipated efficiencies and /or savings	Undertake probes in People & Places directorates to assess arrangements for business case development, procurement, contract letting and monitoring arrangements.

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	January to May 2012	Letter / report by exception
Opinion: receipt of accounts and supporting working papers	30 June 2012	N/A
Opinion: substantive testing	July to August 2012	Opinion on financial statements
Value for money conclusion	January to August 2012	VFM Conclusion
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

In addition to the planned outputs, I will provide progress reports to the Audit & Governance Committee.

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
Judith Tench District Auditor	j-tench@audit-commission.gov.uk 07799 656646	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Andrea Castling Audit Manager	a-castling@audit-commission.gov.uk (Tel Mobile) 07966 399090	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Ivan Parkhill Team Leader	i-parkhill@audit-commission.gov.uk Tel 01270 685929	Supervision of on site team and key point of contact for Finance 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.

The Audit Commission employs four members who have disclosed relationships that might constitute a threat to auditor independence. I do not plan to use any of those staff on the Council's audit. If this situation changes, I will report the facts to you along with the safeguards I propose to put in place to reduce the potential threat.

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 £341,750 set out in my letter of 20 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £358,650 which represents a 9.8 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 set the fee at £341,750, 5% per cent below the scale fee based on my assessment that there is a lower level of risk associated with the 2011/12 audit, as there are no planned changes to major financial systems or accounting treatments during this financial year.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and Business Services 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. My audit team meets regularly with officers to discuss various actions that could be taken to facilitate the accounts preparation and audit processes. We will continue to work with officers during the year to identify any further actions that can be taken.

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	£341,750	£385,453	after rebates of £35,047 and additional fee of £25,000
Certification of claims and returns	£97,994	£70,000 (current estimate)	
Non-audit work	n/a	n/a	
Total	£439,744	£455,453	

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>	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.

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 compared with 2010/11 has reduced and that:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
 - you will inform me of significant developments impacting on the audit.
- 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 30 June 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

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

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the 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 Council 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.

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 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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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.

