
EXTERNAL AUDITOR'S ANNUAL AUDIT PLAN 2011/12

1 SUMMARY

- 1.1 This report presents PKF's updated annual audit plan (AAP) covering the audit of the 2011/12 accounts and grants.

2 INTRODUCTION

- 2.1 In its AAP, attached as appendix 1, PKF sets out its audit approach and scope in relation to the audit of the 2011/12 financial statements, value for money conclusion and grant certification work. The AAP updates the information provided in the 2011/12 fee letter that was considered by this Committee on 8 June 2011.
- 2.2 The AAP confirms that there has been no change to the revised audit fee for 2011/12, which is a small reduction on last year's audit fee.

3 EXTERNAL AUDIT ARRANGEMENTS

- 3.1 Following the Government's announcement to abolish the Audit Commission, the Commission has been going through a tender process to out source its external audit work. It is not anticipated that there will be any change to our audit arrangements as we already have a private firm, PKF. The Commission currently audits about 70% of the Local Authorities and the procurement process is due to be completed before the end of February. The Commission will then consult during April to July on the auditor appointments and the appointments will be made with effect from 1 September 2012. In the meantime, existing external auditors have been asked to keep a 'watching brief' in relation to the 2012/13 audit year and any costs incurred by auditors in relation to this will be paid by the Commission. It is then expected that PKF would be confirmed as our auditors from September and would then issue their fee letter for the 2012/13 audit. There is a minimal risk that, if there is any conflict of independence once the appointments of other audit firms are made in the county and region, we may have a change of auditor and/or partner.
- 3.2 The new contracts for the audit appointments will either be on a 3 or 5 year term depending on the Commission and Department for Local Government and Communities' (CLG) assessment of value for money. Subsequent audit appointments will then become the responsibility of Local Government and further updates on this will be reported to this Committee as details are published by CLG.

4 RESOURCE IMPLICATIONS

- 4.1 The total audit fee of £104,405 represents a 20.83% reduction, compared to the audit fee for 2010/11.

5 LEGAL IMPLICATIONS

- 5.1 The Council is legally required to have an external auditor appointed by the Audit Commission. The Commission has the power to determine the fee above or below a scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee.

6 RECOMMENDATION

- 6.1 It is proposed that the Committee **RESOLVES** that the annual audit plan for 2011/12 be noted.

Yvonne Woodward

Head of Finance

Background Papers:-

None.

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Rochford District Council

Audit Plan 2011/12

February 2012

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members of the Audit Committee. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

1.1 The purpose of this Audit Plan is to:

- ensure that there is mutual understanding of the respective responsibilities relating to the audit of the financial statements
- provide you with an overview of the planned scope of the audit for the year ended 31 March 2012
- ensure that the areas of potential risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

1.2 In addition, we are required by International Standards on Auditing (UK & Ireland) (ISAs) to communicate certain matters to you in connection with our audit.

Significant audit risks

1.3 Our audit is designed to respond to significant risks where we intend to focus additional audit effort in providing our opinion on the accounts and our value for money conclusion:

Financial statements

1.4 No significant local audit risks have been identified; however, there is a presumption in the ISAs that there is a significant risk of management override of controls. This risk cannot be mitigated.

Value for money conclusion

1.5 No new significant audit risks have been identified over and above that already reported to you in our Audit Fee Letter, and which is detailed in Appendix A.

Fees

1.6 The audit fee for the year is £104,405. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2011. The assumptions we have made in setting the audit fee are set out in section 4.

1.7 We anticipate fees for the certification of claims and returns for the year ended 31 March 2012 to be approximately £28,000.

Key outputs

1.8 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
Financial statements	
Report on significant deficiencies in internal controls (if necessary)	June 2012
Annual governance report on the financial statements (also includes key findings from our value for money work)	September 2012
Audit opinion covering the financial statements	September 2012
Opinion on the Whole of Government Accounts return	September 2012
Value for money	
Value for money conclusion	September 2012
Annual audit letter	October 2012
Grants	
Grants report to Those Charged With Governance	February 2013

2 Introduction

- 2.1 This Audit Plan sets out the audit work that we propose to undertake for the 2011/12 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit Committee.
- 2.2 Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are as set out in Appendix B. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by the Council. Our audit of financial statements does not relieve you of your responsibilities.

Planned scope of the audit

- 2.3 We will plan and perform procedures designed to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, thereby enabling us to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 2.4 Our approach to the audit is risk based. We will obtain an understanding of the Council and of the environment in which it operates, including the Council's internal control and this, together with information obtained from discussions with management, provides a basis for identifying and assessing the risks of material misstatement.

Assessing risks

- 2.5 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.6 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

3 Risk assessment

Significant financial statement audit risks

- 3.1 There are no local significant financial statement risks that are likely to impact on our audit of which we are currently aware. However, ISA 240 presumes that a significant risk of management override of controls is present in all entities and requires us to respond by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear unusual. Our audit response to this risk is set out in Appendix A.
- 3.2 We would also like to bring to your attention that the Council is currently exploring the potential to change the accounting treatment in respect of income from Rochford Housing Association in relation to the transferred housing stock, commonly referred to as 'VAT shelter' income. To date the Council has treated this income as a capital receipt but is currently considering whether to adopt a change in accounting treatment to account for this income as a revenue receipt. If the Council does pursue this option then we will need to form a view on the appropriateness of the proposed change and consider whether the nature of the proposed change presents a significant audit risk.

Updated value for money conclusion risk assessment

- 3.3 We have updated our value for money conclusion risk assessment for 2011/12 to take into account:
- matters arising from the completion of the 2010/11 audit
 - additional audit knowledge gained since our initial risk assessment which was included in our 2011/12 Audit Fee Letter, presented to the Audit Committee in June 2011.
- 3.4 We did not identify any additional significant audit risks from our updated risk assessment.

4 Fees

- 4.1 The audit fee for the year is £104,405 plus VAT. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2011.

Audit area	Planned fee 2011/12	Actual fee 2010/11
Financial statements, including WGA	61,000	61,500
VFM Conclusion	19,505	22,500
Planning and reporting	23,900	25,900
Total Code audit fee	104,405	109,900

- 4.2 If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Questions and objections

- 4.3 Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Grants certification

- 4.4 Fees billed are based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred.
- 4.5 We estimate that the fee for certification of claims for the year ending 31 March 2012 will be £28,000.
- 4.6 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard so that we are able to place full reliance on this work.
 - you will keep us informed of any significant changes to your main financial systems, procedures or internal controls.
 - you will provide the information requested in our records required listing in accordance with the agreed timetable and that there will be no significant departures from the timetable.
 - you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored.

- there are no major changes to the content of government department grant instructions.
- 4.7 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2011/12 and our consideration of your annual governance statement in your 2010/11 financial statements.

Billing arrangements

- 4.8 Your audit fee is being billed in 4 equal quarterly instalments of £26,101.25. Fees for grants certification and time spent dealing with any questions and objections from local electors will be billed when the work is complete.

5 Audit arrangements

Staffing

5.1 The following staff will be managing the audit:

	Role and Responsibility
Engagement Partner Richard Bint Email: richard.bint@uk.pkf.com Tel: 0207 065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit and Governance Committee.
Manager Lisa Clampin Email: lisa.clampin@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and VFM Conclusion work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Assistant Manager Liana Hine Email: liana.hine@uk.pkf.com Tel: 01473 320715	Responsible for managing our audit fieldwork on site for systems, accounts and VFM Conclusion.

Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing	Report
Financial statements		
Review of internal controls	March 2012	June 2012
Audit opinion covering the financial statements	August-September 2012	September 2012
Opinion on the Whole of Government Accounts return	August-September 2012	September 2012
Value for money		
Value for money conclusion	February-August 2012	September 2012
Grants		
Grants report for claims and returns for the year ended 31 March 2012	June-November 2012	February 2013

- 5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

Communication

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you. Communication may take the form of discussion or, where appropriate, be in writing.
- 5.5 If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as is practicable.
- 5.6 Our contact for communications will be the Head of Finance. When communicating with the Head of Finance we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Findings from the audit

- 5.7 We will communicate the following matters to you, where applicable:
- Significant deficiencies in internal control identified during the audit
 - Significant qualitative aspects of the entity’s accounting practices including the application of the applicable financial reporting framework
 - Significant matters discussed, or subject to correspondence with management or other employees
 - Uncorrected misstatements
 - Material misstatements that have been corrected by management
 - Other significant matters relevant to the financial reporting process
 - Material uncertainties relating to going concern
 - Written representations that we are requesting from you or from other parties
 - Expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor’s report
 - Significant difficulties that we have encountered during the course of the audit.

Materiality

- 5.8 Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.
- 5.9 For reporting purposes we consider misstatements of less than £12,000 to be trivial, unless the misstatement is indicative of fraud.

Uncorrected misstatements

- 5.10 We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial.
- 5.11 We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements be corrected.

Independence and objectivity

- 5.12 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice and Standing Guidance for Auditors which include the requirement to comply with the International Standards on Auditing (ISA). ISA (UK and Ireland) 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.
- 5.13 In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2012, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with.
- 5.14 Under the requirements of ISA (UK & Ireland) 260 – Communication with those charged with governance, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff that requires disclosure.

Quality of service

- 5.15 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 5.16 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

- 5.17 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website <http://www.audit-commission.gov.uk/complaints/>

Appendix A

Financial statements risk assessment matrix

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Financial statements			
1	Management override: International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will test the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. Should further audit procedures be required, we will notify management and the Audit Committee.

Value for money risk assessment matrix

	Significant audit risk identified from planning	Relevant VFM Criteria	Audit response
1	<i>There is a risk that the Council will not be able to achieve their substantial efficiency savings targets given the scale of savings required to meet the shortfall in government funding. This could have an impact on service delivery and the financial position of the Council in the medium term, including its ability to maintain an appropriate minimum level of reserves and achieve value for money.</i>	<i>Financial Resilience</i>	<ul style="list-style-type: none"> <i>We will monitor delivery of the Council's savings plans to assess their reasonableness and achievability and assess the financial risk exposure of the Council as the year progresses.</i>

Italics = reported in fee letter presented to the Audit Committee in June 2011

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements “are true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- consider the robustness of your financial statements preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable preparation of financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Internal controls and significant financial systems

As part of our audit we obtain an understanding of the entity’s system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

We will report to management any deficiencies in internal control identified during the audit under the requirements of ISA (UK & Ireland) 265 – Communicating deficiencies in internal control to those charged with governance and management. Where we identify significant deficiencies in internal control identified during the audit we will also report those to those charged with governance.

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input. We will seek to rely on the work of Internal Audit to provide assurance over key controls within the financial systems.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

We have discussed possible risk of material misstatement arising from fraud at Strategic Liaison meetings throughout the year attended by the Chief Executive and Head Finance. At these meetings it was confirmed that they are not aware of any actual, suspected or alleged instances of fraud during the financial year to date.

Please let us know if there are any actual, suspected or alleged instances of fraud of which you are, or become aware.

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited financial statements and the consolidation pack, and the agreement of balances with other bodies.

Value for money conclusion

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

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

We will plan a programme of VfM audit work based upon our risk assessment.