

Audit plan

Norwich City Council

Audit 2011/12



Contents

Introduction.....	3
Accounting statements and Whole of Government Accounts.....	4
Value for money.....	8
Key milestones and deadlines	10
The audit team	11
Independence and quality	12
Fees	13
Appendix 1 – Independence and objectivity	16
Appendix 2 – Basis for fee	18
Appendix 3 – Glossary.....	19

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 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.

Identification of significant 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: **Significant risks**

Risk	Audit response
<p>Preparation of the financial statements</p> <p>The 2010/11 audit remained protracted because of the number of audit issues arising, including technical accounting issues, arithmetical errors and internal inconsistencies. I reported material and significant amendments to the financial statements in my Annual Governance Report.</p> <p>The Council has indicated its commitment to improving the drafting of the financial statements, including using the Local Government Shared Services (LGSS) arrangements. However, there remains a risk the Council will not prepare a set of signed financial statements, and working papers, that I consider to be suitable for audit by 30 June 2012.</p> <p>Consequently there is a risk that:</p> <ul style="list-style-type: none"> ■ the Council will miss the audit deadline of 30 September; ■ I will decide the audit should be deferred until November and be undertaken by Ernst and Young; and ■ the fee indicated in my April 2011 fee letter will need to be increased. 	<p>I have:</p> <ul style="list-style-type: none"> ■ issued officers with a list of working paper requirements; and ■ agreed that officers will provide me with fortnightly updates on their financial statements project plan and supporting work programmes, including commentary on the risks arising and the actions being taken to address those risks. <p>I will decide whether I have enough assurance over the quality of the financial statements and working papers by the end of July. This will enable me to decide whether the audit can continue or has to be deferred until November under the contract with Ernst and Young. If I decide the Council has not made the necessary improvements I will consider whether to issue a statutory recommendation under Section 11 of the Audit Commission Act 1998.</p> <p>Because of the errors detected in the 2010/11 financial statements I have planned my audit procedures to be predominantly substantive in nature. I do not therefore plan to rely on the Council's internal controls when carrying out my audit. I therefore do not seek to place reliance on the work Internal Audit undertakes on material systems, although I consider their findings for any implications for my audit.</p>
<p>HRA reform</p> <p>The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012.</p> <p>This has been achieved through a one-off settlement payment to central</p>	<p>I will test the detail of the settlement payment and consider the adequacy of associated disclosures.</p>

Risk	Audit response
<p>government in March 2012. This will adjust the HRA debt of the Council.</p> <p>Because of the size and timing of the HRA reform there is risk the financial statements will be materially misstated, although guidance was published in March 2012 on the necessary accounting entries.</p>	
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 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.</p> <p>There is a risk the Council will:</p> <ul style="list-style-type: none"> ■ fail to identify all of its heritage assets; ■ recognise heritage assets on its balance sheet that do not belong to the Council; and ■ misclassify heritage assets as operational assets and vice versa. 	<p>I will:</p> <ul style="list-style-type: none"> ■ evaluate the arrangements you have put in place to recognise and value heritage assets; and ■ undertake testing to check the Council has accounted for heritage assets in accordance with FRS 30 and the Code.

Testing strategy

My audit involves:

- review of the work of your internal auditors;
- testing of the operation of controls where I consider it is appropriate to do so (refer to my earlier comments);
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts. I seek to maximise the work that can be undertaken before you prepare your accounting statements.

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

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	Review of reports issued to identify audit risks	General Ledger			Update systems documentation and our understanding of the Council Agree opening balances
Final visit	Review of reports issued to identify audit risks		Pensions assets and liabilities – auditor to Norfolk Pension Fund	Pensions liabilities and assets – Hymans Robertson LLP and our own consulting actuary Valuation of property, plant and equipment – Norfolk Property Services	All material accounts balances and amounts Year-end feeder system reconciliations

I have agreed 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?
HRA reform There is a risk to the financial resilience of the Council if the new financing arrangements are not properly managed. Under the new system, local authorities no longer receive housing subsidy or major repairs allowance income. Instead they will fund all HRA revenue and capital expenditure from existing resources.	I will review the medium-term financial plan, treasury management strategy and budget to ensure the Council has adequately considered the risks and implications of self-funding the HRA	No - I will report any significant findings to the Audit Committee as part of my Annual Governance Report.

Risk	Audit response	Separate audit output?
<p>On 1 February 2012, the government published self-financing valuations, based on assumptions about rental income and the expenditure required to maintain the housing stock over a 30-year period, and the payments required to implement the self-financing of council housing. The government also published limits on the amount of housing debt that each local authority can hold.</p>		
<p>Reduced funding</p> <p>Because of the current economic climate, and in common with other public sector organisations, the Council will be required to meet challenging savings and spending reduction targets.</p>	<p>I will consider the Council's arrangements to ensure its medium term financial projections are robust, and consider the level of savings made so far.</p>	<p>No - I will report any significant findings to the Audit Committee as part of my Annual Governance Report.</p>

I consider the Council's arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission has determined that the scope of my work on value for money at the Council is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as appropriate.

As I am not aware of any relevant work of other relevant regulatory bodies or inspectorates my work will comprise a review of your AGS and consideration of the significant risk outlined in Table 3 above. On the basis of this review I will decide whether there are any matters that I need to report.

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	April and June 2012	Annual Governance Report
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	Start July 2012	Annual Governance Report
Value for money conclusion: testing	Start July 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	25 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

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
Rob Murray District Auditor	r-murray@audit-commission.gov.uk 0844 798 5804	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Helen Devlin Audit Manager	h-devlin@audit-commission.gov.uk 0844 798 3048	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Financial Officer.
Tony Poynton Audit Team Leader	t-poynton@audit-commission.gov.uk 0844 798 3044	Leads the on-site team in delivering the audit. Key point of contact for the Chief Accountant.

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 £176,087, as set out in my letter of 26 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £176,087 which represents a 5 per cent reduction on the planned audit fee for 2010/11. However, final audit fees were significantly higher than planned in 2010/11 at £311,000 due to the issues encountered in my audit of the financial statements.

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 Financial 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. You will be aware that in both 2009/10 and 2010/11 I increased the fee from that initially planned due to difficulties encountered in the final accounts audit. The scale fee assumes that such difficulties will not recur in 2011/12. Given the issues with the financial statements in previous years, there is a risk the scale fee will not be sufficient. I discussed my concerns with the Deputy Chief Executive and Chief Finance Officer on 24 April 2012 and agreed that I will keep this under review as I start my 2011/12 audit.

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 Chief Finance Officer 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 the Council could take and to provide continuing audit support.

My 2010/11 Annual Audit Letter includes a recommendation to the Council to improve its financial reporting processes. This includes

- ensuring sufficient resources are available to support the financial statements production;
- developing a comprehensive project plan which ensures:
 - statutory deadlines for approval of the financial statements are met;
 - recommendations made in my 2010/11 Annual Governance Report are considered in sufficient depth and addressed before the financial statements are approved;
 - the entries in the financial statements are supported by good quality working papers which are available at the start of the audit;
 - the financial statements and working papers have been subject to robust quality assurance prior to approval by the Section 151 (Chief Finance) officer. This should include, but not be limited to, internal consistency checks; and
 - the financial statements presented for audit are complete and are not subject to further change, subject to any amendments resulting from the audit process.
- provide additional training, where necessary, to ensure all staff involved in the accounts production process have the necessary skills and information; and
- monitor the production of the financial statements through regular reporting to the Corporate Executive Team and the Audit Committee.

The Council should ensure that these improvements are made.

The Council should also continue to improve the internal control environment so that, when appropriate, I can start to place more reliance on the Council's internal controls. This should include strengthening the Internal Audit function. The appointment of a LGSS Head of Internal Audit is part of that process.

Total fees payable

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

- certification of claims and returns; and
- the agreed provision of any non-audit services under the Audit Commission's advice and assistance powers. No non-audit services are currently proposed.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
Audit	£176,087	£311,000	£(134,913)
Certification of claims and returns	£93,814	£106,366	£(12,552)
Total	£269,901	£417,366	£(147,465)

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 level of risk in relation to the audit of the financial statements is not significantly different from that planned when I issued my fee letter, and the level of financial statements issues found in 2010/11 do not recur in 2011/12.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- The Council has addressed the recommendation included in my 2010/11 Annual Audit Letter in respect of financial reporting.
- The Council has addressed the accounting and financial reporting issues raised in my 2010/11 Annual Governance Report.
- You inform me of significant developments impacting on the audit.
- The Council provides:
 - A high quality draft set of financial statements by 30 June 2012;
 - 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 9 July 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- 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 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.

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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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.

