

Audit plan

Brighton & Hove City Council

Audit 2011/12

23



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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 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 the accounts give a true and fair view.

Materiality

I will apply 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

Auditing Standards require me to understand the Council and identify any risk of material misstatement (whether due to fraud or error) in the 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 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>Payroll</p> <p>Although controls within your Midland i-Trent payroll system are capable of giving material assurance, my work, and the work of internal audit, has highlighted significant weaknesses in the operation of controls. As in previous years I am therefore unable to rely on controls to gain assurance for my opinion on the financial statements.</p> <p>The weaknesses in the operation of controls within payroll create a risk of misstatement and fraud. This is recognised by both management and the Audit Committee, as those charged with governance. Action is being taken to address the control issues noted.</p>	<p>As I am not able to rely on controls I will need to test payroll transactions to gain assurance for my audit opinion.</p> <p>Where I sought to test payroll transactions in 2010/11 difficulties in finding documentation and other evidence to support payments caused delays in my work. My team is therefore working with officers responsible for payroll to undertake as much of this work as possible before the financial statements are produced. I intend to report the results of this work, including any recommendations for improvement, as part of my 2011/12 annual governance report.</p>

Table 2: Specific risks

Risk	Audit response
<p>Local Delivery Vehicle – Seaside Community Homes Limited.</p> <p>You plan to transfer 499 council dwellings to Seaside Community Homes Limited (Seaside), a charitable company limited by guarantee. The transfer of properties began in November 2011 and therefore impacts on my 2011/12 responsibilities. The properties will be transferred under a 99-year lease of land and buildings with a break point exercisable by you after 40 years. Seaside will provide accommodation to tenants, manage the transferred properties, collect rents and undertake capital works on the properties. Seaside will pay cash sums to you as properties are transferred that you intend to recognise as capital receipts in your financial statements.</p> <p>There are two main issues arising from this arrangement that impact on my 2011/12 responsibilities in relation to the financial statements:</p> <ul style="list-style-type: none"> ■ There may be a group relationship between you and Seaside that would require you to produce group financial statements in 2011/12. ■ Accounting for the arrangement involves the exercise of judgement by management. In particular, the classification of the lease of land and buildings as a finance or operating lease has an impact on how you recognise receipts from Seaside for the transferred properties in your accounts. 	<p>Finance officers have liaised with my team over the course of the year and have shared proposals on how you intend to account for your relationship with Seaside in your 2011/12 financial statements. I have considered and challenged those proposals. This challenge has included detailed audit work on calculations, documentation and other evidence supporting your proposals.</p> <p>Based on my work undertaken so far on the evidence supporting your proposals I am not minded to challenge your view there is no group relationship between the Council and Seaside. I am therefore not minded to challenge your conclusion that group accounts are not required to be produced in 2011/12.</p> <p>I am continuing to consider your detailed proposals on how you intend to account for your activity with Seaside in your 2011/12 financial statements. I will also consider how your relationship with Seaside is disclosed in the financial statements. I intend to report the results of this work, including any recommendations for improvement, as part of my 2011/12 annual governance report.</p>

Risk	Audit response
<p>Falmer Academy</p> <p>The new school for Brighton Aldridge Community Academy (BACA) was held on your 2010/11 balance sheet as an asset under construction.</p> <p>The new school was completed and transferred to the possession of BACA in August 2011. It became operational as the main school premises in September 2011. The school land and buildings are subject to a long-term lease that will start on completion of the contract. The final legal execution of the lease will not now take place until the 2012/13 financial year. There is therefore some exercise of judgement required to determine how the asset and associated changes should be accounted for in your 2011/12 financial statements.</p>	<p>Finance officers have liaised with my team over the course of the year and have shared proposals on how you intend to account for BACA in your 2011/12 financial statements. I will consider your proposals and report my findings in my 2011/12 annual governance report.</p>
<p>Waste management private finance initiative (PFI) – energy from waste facility</p> <p>The energy from waste facility at Newhaven is now operational. Although accounting arrangements for the joint waste management PFI are now well established specific entries will be needed to bring the facility on to your 2011/12 balance sheet.</p>	<p>As in previous years a technical specialist has been engaged to review the accounting for the joint waste management PFI in your 2011/132 financial statements. The work will include specific consideration of the accounting entries to bring the energy from waste facility on to your balance sheet.</p>

Risk

Audit response

Housing Revenue Account (HRA) self-financing

Under self-financing you will be required to take a calculated share of the national HRA debt onto your balance sheet. In return you will no longer pay negative subsidy to the Department for Communities and Local Government. Although the new system of HRA self-financing will not start until 2012/13, borrowing of around £18 million will be secured and will come on to your balance sheet at the end of March 2012. There is a risk that this is not accounted for correctly in your financial statements.

I will evaluate the management controls you have in place to take on and account for the debt from 28 March 2012.

I will also undertake testing to ensure that you have correctly accounted for and disclosed the impacts of changes required in preparation for the start of self-financing of the HRA in your 2011/12 financial statements.

Heritage assets

The 2011/12 code of practice on local authority accounting (the 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.

I will evaluate the management controls you have in place to identify and potentially value and recognise significant heritage assets. I will also undertake testing to check that you have accounted for and disclosed heritage assets in accordance with FRS 30 and the Code.

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 works of art. You are now required to specifically identify and disclose such assets. You also may have to value and recognise assets meeting this definition on your 2011/12 balance sheet.

Testing strategy

My audit involves:

- review and re-performance of work completed by your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

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

Table 3: 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 Council tax National non-domestic rates Housing and council tax benefit Housing rents	General ledger Council tax National non-domestic rates Housing and council tax benefit Housing rents			Payroll
Final visit			Pensions assets and liabilities – auditor to East Sussex Pension Fund (PKF)	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary Valuation of HRA properties – Wilkes, Head and Eve Valuation of other operational properties – In-house team plus external consultant Investment properties – Cluttons Agricultural property - SmithsGore	All material accounts balances, amounts and disclosures Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness.

My conclusion is based 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 resources within tighter budgets and improving productivity and efficiency.

Identification of specific risks

The main risk that is relevant to my value for money conclusion continues to arise from funding reductions in the comprehensive spending review and the resulting need to continue to secure significant efficiencies to achieve your medium term financial plans.

In light of this I intend to undertake the following work to inform my 2011/12 value for money conclusion:

- I will use the Audit Commissions VFM profile database, and other available information on cost, to consider your costs relative to your statistical nearest neighbours;
- I will consider your arrangements to compare costs and outcomes against others to form a view on the level of understanding you have on the value for money delivered. In particular I will consider your arrangements to ensure that commissioners have adequate information on costs and outcomes to make properly informed decisions; and
- I will consider how you use comparative information on costs and outcomes to inform budgeting and gain assurance that your pattern of spending matches your priorities.

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 26 September 2012.

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

Activity	Date	Output
Audit plan	April 2012	Report to Audit Committee
Opinion: controls and early substantive testing	February to April 2012	Annual governance report
Opinion: receipt of accounts and supporting working papers	25 June 2012	n/a
Opinion: substantive testing	Payroll – Feb to April 2012 Other - July to August 2012	Annual governance report
Value for money	April to August 2012	Annual governance report
Present annual governance report at the Governance and Audit Committee	25 September 2012	Annual governance report
Issue opinion and value for money conclusion	26 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
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790 / 07974 007332	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Simon Mathers Audit Manager	s-mathers@audit-commission.gov.uk 0844 798 1776 / 07776 493851	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance, Head of Internal Audit and Head of Central Financial Services.
Jessica Grange Co-Team Leader	j-grange@audit-commission.gov.uk 0844 798 6116	Responsible for the day-to-day running and detail of the audit. Key point of liaison with Central Financial Services Officers.
Jeremy Jacobs Co-Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Responsible for the day-to-day running and detail of the audit. Key point of liaison with Central Financial Services Officers.

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 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 £350,550 as set out in my letter to the Chief Executive letter of 11 March 2011.

The audit fee

The Audit Commission has set a scale audit fee of £350,550 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

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 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

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	£350,550	£389,500	- £38,950
Certification of claims and returns	£52,000 ⁱ	£52,845	- £845
Non-audit work	0	£4,000	- £4,000
Total	£402,550	£446,345	-£43,795

ⁱ Grant certification work is billed per diem and therefore the final fee payable is variable. The 2011/12 fees for grant claim work are an estimate at this stage. I have updated this estimate based on the actual fee for 2010/11 grant claim work which is shown in the table above. I originally reported an estimate of £58,000 for 2011/12 grant claim work in my fee letter of 11 March 2011.

Appendix 1 – Independence and objectivity

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

Table 7: Independence and objectivity

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

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

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

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting statements on which I can rely by agreed timescales.
- your officers provide:
 - 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;
 - 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.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the 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 the 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.

