

# Audit plan

Oxford City Council

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. It uses 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. I undertake my work to meet them.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

# Accounting statement and Whole of Government Accounts

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**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 must issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## 34 **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 Authority to identify any risk of material misstatement (from either fraud or error) in the accounting statements. I do this by:

- identifying the business risks you face, 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 in your information systems.

## **Identification of significant risks**

I have considered the risks relevant to the audit of the accounting statements and set them out below.



Table 1: **Audit risks**

Risk	Audit response
<p>Housing Revenue Account (HRA) reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off payment to or from central government by 28 March 2012 to adjust the HRA debt of the Council. Because of the complexity, size and timing of the HRA reform, there is a risk that the financial statements will be materially misstated.</p>	<p>Review of how management oversees HRA reforms and transactions required.</p> <p>Test the one-off payment or receipt.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council must value PPE at fair value (with some exceptions). The risk is that the value in the financial statements will be materially misstated because of past problems, and the use of spreadsheets rather than a specific fixed assets system.</p> <p>The value of the Council's housing stock is material and there is a risk that it may be materially misstated because of concerns over the adequacy and accuracy of its housing stock records.</p> <p>The risk is there will not be a full disclosure of investment properties and Assets Held for Sale.</p>	<p>Review of controls over preparing estimates, including arrangements for instructing your valuer and controls over information provided.</p> <p>Procedures for relying on the work of the valuer.</p> <p>Testing of valuations and associated depreciation calculations</p> <p>Review of how management oversees the valuation of housing stock, including arrangements for instructing a valuer and controls over information provided.</p> <p>Testing to ensure proper disclosure and valuation of investment properties and Assets Held for Sale.</p>
<p>Heritage Assets</p> <p>In 2011/12 the Council needs to meet the requirements of FRS 30 Heritage Assets. The risk is the Council may be unable to identify and account for all heritage assets because of the large number of such assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities, held and kept</p>	<p>I will evaluate your management controls to recognise and value heritage assets. I will also test that the Authority has accounted for heritage assets following FRS 30 and the Code and the financial statements are not materially misstated.</p>

Risk	Audit response
<p>principally for its contribution to knowledge and culture. For the Council this is likely to include your Civic Regalia.</p>	
<p>Icelandic banks The Council has deposits in Icelandic banks and I need to ensure that proper accounting treatment and disclosures are made.</p>	<p>I will assess how much you estimate you will be able to recover from your investments in Icelandic banks. I will also test that the disclosure in the financial statements is correct.</p>
<p>Operating Leases The calculation of the lease disclosure was incorrect in 2010/11</p>	<p>I need to test the disclosure to ensure that it is materially correct</p>
<p>Trial Balance and coding structure The Council is updating its financial coding structure and seeking to streamline production of the Trial Balance. There may be a risk that this is not completed successfully or on time</p>	<p>I will review and test as necessary the Council's Trial Balance and financial coding structure</p>
<p><b>Testing strategy</b>          Based on risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.          My testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing) and involves:         <ul style="list-style-type: none"> <li>■ review and reperformance of work of your internal auditors as necessary;</li> <li>■ testing of the operation of controls;</li> <li>■ reliance on the work of other auditors when appropriate;</li> <li>■ reliance on the work of experts; and</li> <li>■ substantive tests of detail of transactions and amounts.</li> </ul>         I seek to:         <ul style="list-style-type: none"> <li>■ maximise reliance, subject to review and reperformance, on the work of your internal auditors; and</li> <li>■ maximise the work that can be undertaken before you prepare your accounting statements.</li> </ul>         The nature and timing of my proposed work is as follows.</p>	

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	General Ledger Payroll Accounts Payable Accounts Receivable Treasury Management	Housing Rents Council Tax	None	None	Sale of Grantham House Development and any other large fixed asset disposals or purchase.
Final visit	Review of relevant Internal Audit work	Pensions assets and liabilities – auditor to Oxfordshire County Council Pension Fund	Pensions liabilities and assets – Oxfordshire County Council fund and our own consulting actuary	All material accounts balances and amounts Year-end feeder system reconciliations	Valuation of property, plant and equipment – reliance on internal and external valuers and our own independent valuer.

I will agree with you a schedule of working papers needed 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 (NAO) on your Whole of Government Accounts return. The NAO specify the extent of my review and the nature of my report.

# Value for money

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## **I must reach a conclusion on your arrangements to secure economy, efficiency and effectiveness.**

My conclusion on your arrangements is based on two criteria, specified by the Commission. These relate to your arrangements for:

- securing financial resilience – focusing on whether you are managing 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 significant risks**

☞ I have considered the risks relevant to my value for money conclusion and have not identified any significant risks.

## **I consider the Authority'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 Authority 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.

Once I have completed my work I will then decide whether there are any matters I need to report.



# Key milestones and deadlines

The Authority must prepare 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 3: Proposed timetable and planned outputs

Activity	Date	Output
Opinion: controls and early substantive testing	March 2012	Interim Memo
Opinion: receipt of accounts and supporting working papers	July 2012	None
Opinion: substantive testing	By 30 September 2012	Auditors opinion
Present Annual Governance Report at the Audit Committee	By 30 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 team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Maria Grindley District Auditor	m-grindley@audit-commission.gov.uk 0844 798 8952	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Alan Witty Audit Manager	a-witty@audit-commission.gov.uk 0844 798 8956	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Susan Whipp Team Leader	<u>s-whipp@audit-commission.gov.uk</u> 0844 798 8967	Manages day to day work of the audit team and is the key point of contact for the Finance Team.

# Independence and quality

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## 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 aware of the following relationship which might constitute a threat to independence and I am required to report to you. I have therefore introduced the following safeguard to reduce the threat.

Table 5: Threats and safeguards

Threat	Safeguard
The husband of the Team Leader for the audit is a Heating Engineer within the Council's City Works department.	My Team Leader will not undertake or review any work on payroll or on the Council's City Works department.

## Quality of service

I aim to provide you with a fully satisfactory audit service. However, if 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](mailto: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

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## The fee for the audit is £190,000, as set out in my letter of 26 April 2011

### The audit fee

The Audit Commission has set a scale audit fee of £190,000 which represents a 17 per cent decrease 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 caused by the adoption of International Financial Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity differ significantly from those reflected in the 2010/11 fee. I have not identified any significant issues and as discussed at Audit and Governance Committee I have assumed that agreed recommendations are implemented so that improvements are achieved. I have therefore set your fee at the scale fee.



## Total fees payable

As well as the fee for the audit, the Audit Commission charges for:

- certifying claims and returns; and
- where I have agreed to provide non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£190,000	£223,000	£33,000
Certification of claims and returns	£74,500	£81,500 (estimate)	£7,000
Non-audit work	None	None	-
<b>Total</b>	<b>264,500</b>	<b>304,500</b>	<b>40,000</b>

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## Assumptions

In setting the fee, I have made the assumptions set out in Appendix 2. Where these assumptions are not met, I may need to undertake more work, which may increase the audit fee. Where this is the case, I will discuss this first with the Corporate Director Finance and Efficiency and I will issue a supplement to the plan to explain any revisions to the risk and the fee impact.

## 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 have identified the following actions:

- improve quality of working papers;
- simplify preparation of the Trial Balance and the financial coding structure; and
- ensure appropriate disclosure and valuation of plant property and equipment including assets held for sale.

# 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.

45 Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	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.	All audit staff must declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards introduced to reduce the threat to an acceptably low level.
	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.	

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 auditor and senior audit staff assignments.
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 must declare any gifts or hospitality, whether or not accepted. They 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>	<p>All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure independence is not compromised.</p>
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11. For example:
  - internal controls are operating effectively;
- Internal Audit meets the proper professional standards; and
- Internal Audit undertakes sufficient appropriate work on financial systems that provide material figures in the accounting statement on which I can rely.
- The risk to my value for money responsibilities is not significantly different from that identified for 2010/11.
- 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 July 2011;
  - 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, more work will be necessary, which is likely to mean an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority must prepare, which report its financial performance and financial position 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 Authority after the completion of the audit summarising the work carried out in the period and significant issues arising.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements. It is presented to those charged with governance before auditors issue their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control supporting how it achieves its policies, aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors 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 which meet the developing needs of users of financial information and ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB containing 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)**

4 The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

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## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB containing basic principles relating to independence, integrity and objectivity which 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 Authority 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. Auditors adopt a level of significance which 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 Authority. This term includes the members of the Authority and its Audit Committee.

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## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**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.



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