

Audit plan

Warwick District Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

- 1 This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.
- 2 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2010/11;
 - current national risks relevant to your local circumstances; and
 - your local risks.
- 3 As your appointed auditor, the audit of the financial statements I deliver to you is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.
- 4 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.
- 5 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs, improving their overall readability and making them easier to understand.
- 6 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. These changes are highlighted throughout this plan.
- 7 For 2010/11 the Audit Commission requires me to give my statutory VFM conclusion on your arrangements to secure economy, efficiency and effectiveness on two criteria.
 - Securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future.
 - 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.
- 8 This plan also includes the work required for me to issue a VFM conclusion.

Responsibilities

9 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 every audited body.

10 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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

12 The fee for the audit is £123,854, as indicated in my letter of 27 April 2010.

13 The Audit Commission scale fee for the Council is £122,800. The fee proposed for 2010/11 is 0.8 per cent above the scale fee and is within the normal variation specified by the Commission.

14 In setting the fee, I have assumed that:

- the risk to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restated 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 31 March 2011.

15 Where these assumptions are not met, I will undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

Appendix 1 contains information on the basis for the fee.

Fee rebate

16 The Commission wrote to all audited bodies, on 9 August, about its proposed arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. The Commission has announced it will rebate fees by 1.5 per cent for district councils.

17 The published fee scale for 2010/11 included a 6 per cent increase to cover the costs of additional audit work arising from the introduction of International Financial Reporting Standards (IFRS). In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to IFRS for local authorities.

Specific actions Warwick District Council could take to reduce its audit fees

18 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions the Council could take and to provide continuing audit support.

Auditors report on the financial statements

19 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

20 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

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

Identifying opinion audit risks

22 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial 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 information systems.

23 I carried out a review of the IT control environment across the Council. While there were no issues which affected my risk assessment for opinion purposes, I have included agreed recommendations for further improving the IT control environment in appendix 4.

24 I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>IFRS Restatement</p> <p>Restating the 2009/10 financial statements using the International Financial Reporting Standards. Officers agreed to deliver the restated accounts by 28 February 2011.</p>	<p>We provided a workshop for your lead officers on 8 February 2011. Officers have responded well to the challenge of IFRS, and the restated accounts were submitted for audit in mid February - ahead of schedule.</p> <p>I will also:</p> <ul style="list-style-type: none"> ■ liaise with relevant finance staff to discuss key decisions that result in significant changes in advance; ■ audit the changes to the 2009/10 financial statements before the main 2010/11 audit; and ■ focus my work on the 2010/11 financial statements on the changes resulting from IFRS implementation.
<p>During the 2009/10 audit there were significant changes to the value of council houses in the financial statements approved by Council as a result of revised figures from the District Valuer.</p>	<p>Officers have advised us that they will obtain valuations earlier this year so that up to date valuations can be included in the accounts presented for audit. We will audit these figures to ensure they have been correctly applied.</p>
<p>In 2009/10 we reported several other changes to the accounts arising from our audit work. While these were of comparatively low value, they did result in additional work for both officers and auditors.</p>	<p>We will discuss with officers a process for them to review the draft accounts and working papers before they are submitted for audit.</p>

Testing strategy

25 Based on the risks identified above, I have developed a testing strategy, similar to previous years. This consists of a combination of testing key controls and substantive tests of transaction streams and material account balances at year end.

26 My testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). However, one of the changes brought about by the ISA Clarity Project is a greater focus on substantive tests. The testing strategy has been developed alongside your finance team to maximise the efficiency of the approach.

27 All the controls assurance work will be completed by April 2011 and wherever possible, I will complete some of the substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Investments – ownership.
- Year-end feeder system reconciliations.
- Fixed asset additions.
- Annual Governance Statement.

28 Wherever possible, I will also seek to rely on the work of Internal Audit to help me meet my responsibilities.

29 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors for the pension fund disclosures.

30 I also plan to rely on the work of experts in the following areas.

- Fixed asset valuations.
- Actuarial valuations for the pension fund.

ISA Clarity

31 As well as a greater focus on substantive testing there are a several other specific changes. These include the following.

- Journals. ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I had previously sample checked these.
- Related Party Transactions. ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate. This is a clarification of existing practice.
- Deficiencies in internal control. ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard. It requires that if I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Finance and Audit Scrutiny Committee as those charged with governance.

32 The most noticeable change is to the way I review accounting estimates. ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

IFRS Restatement

33 As noted in table 1 above the 2009/10 financial statements need to be restated using the International Financial Reporting Standards (IFRS).

There will be several changes to the 2009/10 financial statement including:

- classification of leases;
- inclusion of employee benefits accrual;
- changes in the treatment of government grants; and
- changes to the presentation of the statements.

34 Officers responded well to the challenge of preparing IFRS restated accounts. The work undertaken meant that officers delivered the restated accounts by mid February 2011. We have been working closely with the officers to ensure this deadline was achievable and that our review of the restated accounts can be completed before the submission of the 2010/11 financial statements.

Key milestones and deadlines

35 Table 2 shows the key stages in producing and auditing the financial statements.

Table 2: **Audit strategy key milestones**

Task	Deadline
Receipt of the IFRS restated 2009/10 financial statements.	28 February 2011 (achieved mid February)
Interim work covering controls testing, early substantive testing and review of any Internal Audit work.	April 2011
Receipt of the financial statements for audit.	30 June 2011

Task	Deadline
Sending audit working papers to the auditor.	Mid July 2011
Start of detailed testing.	Early testing from mid July 2011
Progress meetings with finance staff.	Weekly
Present report to those charged with governance at the Finance and Audit Scrutiny Committee.	September 2011
Issue of opinion.	Before 30 September 2011

Value for money conclusion

36 I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

37 This is based on two criteria, specified by the Commission, related to your 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.

38 The VFM conclusion will be in the form of either an unqualified or, if I am not satisfied the Council has adequate arrangements in place, qualified VFM conclusion. The key messages from my VFM conclusion work, including suggested areas for improvement, will be reported to the Finance and Audit Scrutiny Committee via the annual governance report and annual audit letter.

39 I have considered the risks that are appropriate to the current value for money conclusion and have set these out in table 3 below.

Table 3: **VFM Conclusion risks**

Risk area	Audit response
Securing Financial Resilience	
Financial Planning	Review the medium term financial plans and the 2011/12 budgets to ensure the Council has taken appropriate account of the current economic climate and the plans are supported by detailed and robust assumptions. Reviewing your reporting on progress against these plans.
Savings Plan	Review the process for the identification, monitoring and reporting of your savings plans.
Securing economy, efficiency and effectiveness	
Performance management.	Review the arrangements in place to ensure that service delivery performance is effectively managed. This will be an update of the detailed work undertaken for my value for money conclusion in 2009/10.

40 The work will be carried out during February to May 2011.

The audit team

41 Table 4 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
John Gregory District Auditor	j-gregory@audit-commission.gov.uk 0844 798 1119	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Deputy Chief Executive.
Neil Preece Audit Manager	n-preece@audit-commission.gov.uk 0844 798 7577	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.

Independence and objectivity

42 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

43 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Meetings

44 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

Quality of service

45 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 of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk). He will look into any complaint promptly and do what he can to resolve the position.

46 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).

Planned outputs

47 My team will discuss and agree reports with officers before issuing them to the Finance and Audit Scrutiny Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	To be confirmed - September 2011
Auditor's report giving an opinion on the financial statements	By 30 September 2011
Annual audit letter	30 November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to the following.

- My cumulative knowledge of the Council:
 - planning guidance issued by the Audit Commission; and
 - the specific results of previous and ongoing audit work.
- Interviews with Council officers.
- Liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed the following.

- The level of risk in the audit of the financial statements is not significantly different from that identified for 2009/10.
- The fee for the value for money conclusion is the same as for 2009/10
- You will inform me of significant developments affecting the audit.
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can rely on it for our audit.
- You provide:
 - good quality working papers and records to support the financial statements by mid July;
 - information asked for within agreed timescales; and
 - prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

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

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Finance and Audit Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to

carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- 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.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Deputy Chief Executive & Head of Finance	DA and AM	Quarterly	General update plus: <ul style="list-style-type: none">■ March - audit plan; and■ September - annual governance report.
Finance and Audit Scrutiny Committee	DA and AM	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report; and■ other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 IT Control environment assessment recommendations

Recommendations

R1 IT Managers should consider reviewing the password parameter settings for the network in order to comply with best practice.

- Maximum age of password is currently 90 days (compared to recommended maximum of 60 days).
- Current number of passwords remembered is 4 (compared to recommended 12).
- Current number of incorrect passwords allowed before lockout is 5 (compared to recommended 3).

Agreed with Ty Walter (ICT Services Manager).

R2 Total Finance system administrators should consider reviewing the password parameter settings in order to comply with best practice (if within system capabilities).

- Maximum age of password is currently 90 days (compared to recommended maximum of 60 days).
- Minimum password length is currently 6 characters (compared to recommended 8).
- Current number of passwords remembered is 8 (compared to recommended 12).
- Current number of incorrect passwords allowed before lockout is 4 (compared to recommended 3).

Agreed with Andy Crump (Principal Accountant).

R3 System managers and/or IT Managers should consider establishing a formal SLA with Warwickshire County Council to outline the expectations for the payroll services provided. This should include a schedule of services to be provided, for example, business continuity and disaster recovery arrangements, firewall management, anti-virus and security of data.

Agreed with Ty Walter (ICT Services Manager).

R4 The IT Manager should ensure that plans to fully restore key application systems from backup media are implemented.

Agreed with Ty Walter (ICT Services Manager).

R5 The IT Manager should ensure that the newly implemented business continuity plan is fully tested. It is recommended that testing is carried out at least annually.

Agreed with Ty Walter (ICT Services Manager).

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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