

# Three Rivers District Council

## Audit planning update 2010/11

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January 2011



# An overview of your 2010/11 Audit Planning update

This is our audit planning update for the financial year 2010-11 for the Three Rivers District Council (the Council). It sets out the work that we will deliver in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant challenge, the underlying level of risk in relation to the audit is higher than 2009/10 due to financial pressures in 2010/11 and beyond. Following the 2009/10 audit we have updated our accounts audit risk assessment and concluded that profile has not changed.	See Accounts audit
In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.	See Value for money audit
Our main audit team includes a new assistant manager to lead the final accounts process. As in previous years, we will use Grant Thornton specialists to support our work and ensure that you are getting the required levels of expertise from us.	See Engagement team
We have used the Audit Commission scale of fees work programme for 2010/11 to calculate your proposed audit fee which remains unchanged from the indicative fee which we communicated to you in March 2010. Revised arrangements for indicative 2011/12 fees were published in December 2010.	See Audit fee
You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the Audit and draw your attention to our approach in placing reliance on the work of internal audit. We comply with the Audit Commission's requirements in respect of independence and objectivity	See Appendix A

# Accounts audit

## Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010/11 accounts. The plan is based on our risk-based approach to audit planning and is based on our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

## The Council's responsibilities

The Council's accounts are an essential means by which it demonstrates its stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare accounts, which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

## Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.



# Accounts audit - risk assessment

## Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

**Table 1: Accounting risks and planned audit response**

Key audit risk	Audit areas affected	Audit approach
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> <li>We will review the accounting policies used by the Council in its adoption of IFRS for the first time.</li> <li>Specialist technical support will be made available to the Council as required.</li> <li>We will review the implications of any developing issues through reference to IFRS guidance and discuss with the Council accordingly.</li> </ul>
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> <li>We will review the Council's financial performance for the year against its agreed budget.</li> <li>We will review the Council's medium term financial strategy in light of current funding arrangements.</li> </ul>
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> <li>We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. We will also consider the timeliness of the Council's work on valuations.</li> <li>We will undertake a detailed review of property, plant and equipment accounting to ensure all issues arising from the adoption of IFRS have been identified.</li> </ul>
William Penn	All areas of the financial statements	<ul style="list-style-type: none"> <li>We will review the financial implications of the Council's redevelopment of the William Penn leisure centre.</li> </ul>

# Accounts audit - approach

## Audit approach

We will:

- work closely with the Finance Team at the shared service to ensure that we meet audit deadlines and conduct the audit efficiently.
- plan our audit on an individual task basis at the start of the audit, and timetables agreed with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

In summary our audit strategy comprises:

<b>Planning</b>	Updating our understanding of the Council through discussions with management and a review of the management accounts.
<b>Control evaluation</b>	<ul style="list-style-type: none"> <li>• Reviewing the design and implementation internal financial controls, including IT, where they impact the financial statements.</li> <li>• Assessing audit risk and developing and implementing an appropriate audit strategy.</li> <li>• Testing the operating effectiveness of selected controls.</li> <li>• Assessing internal audit against the CIPFA Code of Practice.</li> </ul>
<b>Substantive procedures</b>	<ul style="list-style-type: none"> <li>• Reviewing material disclosure issues in the financial statements</li> <li>• Performing analytical review.</li> <li>• Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate.</li> </ul>
<b>Completion</b>	<ul style="list-style-type: none"> <li>• Performing overall evaluation of the process.</li> <li>• Determining an audit opinion.</li> <li>• Reporting to the Audit Committee.</li> </ul>

# Accounts audit - other issues

## Other issues

### Annual Governance statement

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

### Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack for consistency with the Council's accounts

### Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

### Certification of Grants and Returns

In addition to our audit of the Council's financial statements and Value for Money, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2010-11.'

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

### National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

### Shared Service

The Council's revenue & benefits, payroll, human resources, IT and finance functions are provided by a shared service, in conjunction with Watford BC. Our 2009/10 audit identified that implementation had been largely effective. We will need continue to review developments and report any concerns about controls and processes to management and the Audit Committee as appropriate.

# Value for money audit

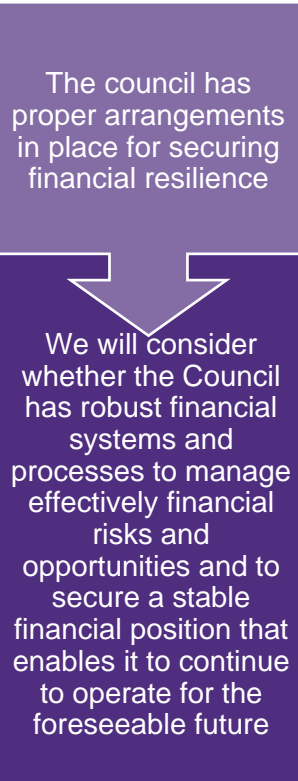
## Introduction

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

## 2010/11 VFM conclusion

Since we issued our indicative fee letter, a new approach to local Value for Money audit work has been introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission:

### Code criteria 1



### Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Undertake an in-depth review of the Council's medium term financial plan;
- Consider the Council's financial performance against Local Government financial ratios; and
- Consider the Council's response to the CSR and the impact that this will have on the Council's financial planning.

# Value for money audit

## Code criteria 2

## Work to be undertaken

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will consider whether the Council is prioritising its resources within tighter budgets

Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- Apply our VfM benchmarking tool to the Council's 2009/10 performance to establish how services performed during the year.

We will tailor our VfM work to ensure that as well as addressing our high risk areas, it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for Officer and Members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review which will be agreed with Officers.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any high risk areas identified.

### Non code work

We have been engaged to perform non code work at the Council to carry out a contract procedure review regarding the redevelopment of the William Penn leisure centre.





## Engagement team - key contacts

Your main audit team is based in London and are all public sector specialists. However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.



**Paul Dossett (CPFA)**  
**Partner**  
T 020 7728 3180  
E paul.dossett@uk.gt.com

Paul is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. Paul will be a key contact for the Chief Executive, the Director of Corporate Resources and Governance, other senior Council Officers and the Audit Committee.

Paul is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



**Richard Lawson (FCCA)**  
**Manager**  
T 020 7728 2084  
E richard.lawson@uk.gt.com

Richard is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.

Richard reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.



**Kate Wheeler (ACA)**  
**Executive**  
T 0207 728 2033  
E kate.e.wheeler@uk.gt.com

Kate is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department. Kate will be supported by a team of audit assistants.

## Engagement team - specialist support



**Negat Sultan**  
**IT Audit Manager**  
T 0116 247 5590  
E [negal.sultan@uk.gt.com](mailto:negal.sultan@uk.gt.com)

Negat is responsible for review of the Council's IT systems to complement the financial accounts process.

Negat also takes the lead on any additional work required in areas such as data quality and security.



**Nick Taylor (ACA)**  
**Grants Manager**  
T 07500 815 358  
E [nick.taylor@uk.gt.com](mailto:nick.taylor@uk.gt.com)

Nick is responsible for the overall management of the grants audit programme and will work with the Council to coordinate the certification of the grant claims.



**Guy Clifton**  
**Government & Infrastructure Advisory**  
T 020 7728 2903  
E [guy.clifton@uk.gt.com](mailto:guy.clifton@uk.gt.com)

Guy is an Senior Manager in GIA with extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Guy's expertise will be used to support our work on the Council's Value for Money conclusion.

# Audit fee

## What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

## How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010/11. For the Council, the scale calculation includes a fixed element for a District Council plus a 3% uplift for all Councils in Hertfordshire and a percentage of planned gross expenditure as determined by the Audit Commission.

## Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we then tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

## 2010-11 audit fee

As set out in our indicative Audit Fee Letter issued March 2010, the total indicative fee for the audit for 2010/11 is **£104,000** (exclusive of VAT), this

- The scale audit fee for the Council has been calculated at £ 106,542.
- The planned fee is a 1.4% below the Audit Commission scale fee.

In setting the audit fee below scale, the following factors have been taken into account:

- ✓ the standard of support received from the Council's finance team in respect of the 2009/10 accounts audit;
- ✓ evidence of progress to date with the transition to IFRS; and
- ✓ the results of our value for money assessment in 2009/10.

However, the fee will be subject to continuous review and may be revised if significant new risks are identified either as part of our planning or during the audit or if we are unable to progress the audit as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the Director of Corporate Resources and Governance.

# Audit fee

A summary of the audit fee is shown in the table below:

**Table 2: 2010/11 audit fee**

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements, including WGA	£65,500	£60,500
VfM conclusion	£38,500	£44,500
	<b>£104,000</b>	<b>£105,000</b>
None code work	**£8,400	-
<b>Total audit fee</b>	<b>£112,400</b>	<b>£105,000</b>
Certification of claims and returns*	-	*£20,000(est.)

\* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.

\*\*the non code work relates to William Penn centre review, the amount quoted is for phase 1 of the review. There is scope for phase 2 of the review dependant upon whether the Council wish to take up the option.

## New approach to local VfM work – impact on the 2010/11 audit fee

The Audit Commission wrote to all council chief executives in August 2010 to advise of the new approach to local Value for Money for audit work and the impact of this on the 2010/11 audit fee following the cessation of the Comprehensive Area Assessment.

The Audit Commission confirmed to councils in this letter that the new approach will mean a reduction in audit fees from 2011/12. However, for 2010/11, the Commission has already given a 6% rebate to mitigate the increases in audit fees arising from the transition to IFRS. The Audit Commission confirmed in December 2010 that it would rebate 1.5% of the 2010/11 audit fee.

The Audit Commission confirmed to Councils in the consultation that the new approach will mean a reduction in audit fees from 2011/12. Recent guidance issued by the Audit Commission resulted in the 2011/12 audit fee being based upon the 2010/11 fee with a 3% reduction in the overall fee and a further 5% reduction in the VfM conclusion element of the fee.

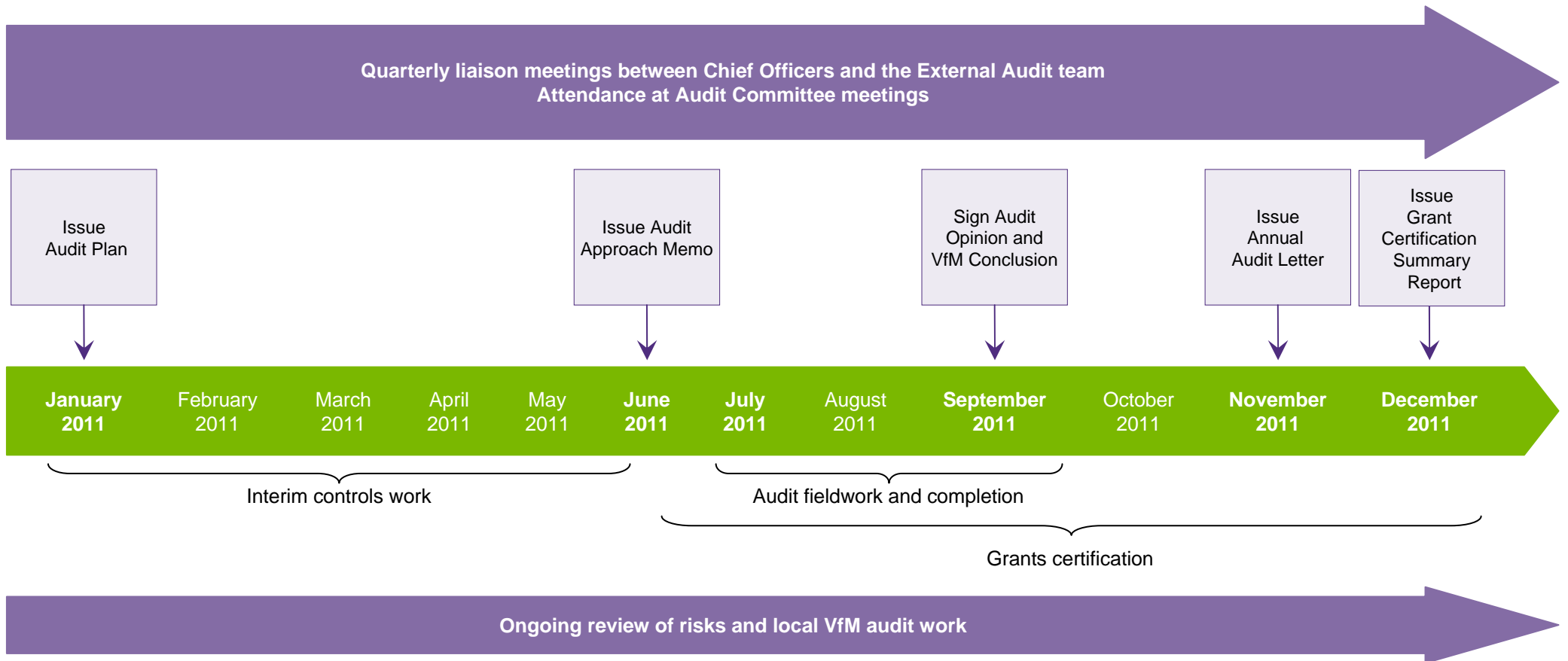
# Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit & Governance Committee.

Reports are addressed to the Audit & Governance Committee and management and are prepared for the sole use of the Council, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> <li>• Outline audit approach</li> <li>• Identify initial high risk areas and our planned response</li> <li>• Confirm Plan with the Audit Committee</li> </ul>	January 2011
Audit Approach Memorandum	<ul style="list-style-type: none"> <li>• Outline our audit strategy on conclusion of detailed audit planning</li> <li>• Review risks and update planned response accordingly</li> <li>• Highlight focus areas for the audit</li> <li>• Confirm with Senior Officers and Audit Committee</li> </ul>	June 2011
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> <li>• Highlight key issues arising from the audit and their resolution</li> <li>• Communication of adjusted and unadjusted audit differences</li> <li>• Improvement recommendations resulting from audit procedures</li> </ul>	September 2011
Auditor's Reports	<ul style="list-style-type: none"> <li>• Report on value for money conclusion</li> </ul>	September 2011
Annual Audit Letter	<ul style="list-style-type: none"> <li>• Summarises the key issues arising from our 2010/11 audit</li> </ul>	November 2011
Grants Claim Certification	<ul style="list-style-type: none"> <li>• Highlights key issues arising from our grants certification work</li> <li>• Recommendations identified for improvement</li> </ul>	December 2011

# Timeline





## Appendix A

# Independence and objectivity

We are required to communicate to you an relationships that may affect the independence and objectivity of the audit team. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

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 my 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
- 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 audit & governance committee. The auditor reserves the right, however, to communicate directly with the authority 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 (i.e. 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 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 Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead 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 Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.





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