

Audit Plan

Thanet 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

This plan sets out the audit work that I, as your District Auditor, propose to undertake with my team for the audit of financial statements and the value for money conclusion 2010/11.

1 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.

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 every audited body.

2 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.

3 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

4 I propose a fee for the audit of £153,500. This compares with my initial estimate for the combined audit and inspection programme of £162,652. It also compares with a scale fee for the audit of £147,960. Further analysis is set out below.

Table 1: **Audit and inspection fees 2009/10 and 2010/11**

Area of work	2009/10 Actual fee	2010/11 Initial estimate Apr 2010	2010/11 Revised estimate Jan 2011
	£	£	£
Audit	145,000	153,500	153,500
Inspection	9,152	9,152	0
Total	154,152	162,652	153,500

5 Compared to my original estimate, I have reduced the overall audit and inspection fee for 2010/11 by £9,152.

6 I am pleased to report that the Audit Commission will also be issuing you with rebates in respect of two elements of the audit:

7 Firstly, as reported in my initial fee letter of April 2010, the Commission has issued a rebate for the cost of the one off first year audit of IFRS. At Thanet, this represents a rebate of £8,518 against the figures above.

8 In addition, the Commission has now concluded its consultation on changes to 2010/11 fees. Thanet District Council will receive a further rebate of £2,219 reflecting the new approach to local VFM audit work.

9 These changes demonstrate our commitment to providing an efficient audit service and to passing back savings to councils where we can.

10 In setting the fee, I have assumed that:

- the level of risk in relation 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; and
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS).

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

12 Further information on the basis for the fee is set out in Appendix 1.

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

13 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 that the Council could take and to provide ongoing audit support. There are no areas where I recommend you take action or can improve which would result in a reduced fee at the moment.

Auditors report on the financial statements

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).

14 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

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

Identifying opinion audit risks

16 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's information systems.

17 Appendix 2 to this report sets out those areas where we require a formal response from the Audit Committee as part of completing our work. We would appreciate it if members could discuss the matters raised and provide a formal response either through email or letter by 30 April 2011.

Identification of specific risks

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

Table 2: **Specific and significant risks**

Specific and significant opinion risks identified to date

Risk area	Audit response
<p>Implementation of IFRS</p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require restatement of both opening and closing balances from the previous year as well as additional disclosures. There is a risk that the Council's capacity pressures in finance will impact on the success in preparing the necessary information in time.</p>	<p>We will monitor the Council's progress in introducing IFRS as set out in its implementation plan. We will undertake specific work to review the restated balances from 2009/10 and to review the treatment of complex transactions such as leases. We will assess your progress during the year and report back on the findings to your Audit Committee.</p>
<p>New payroll system</p> <p>2010/11 is the first year of operation of the shared East Kent payroll service, provided by KCC. There is a risk that the new system does not provide the anticipated level of performance.</p>	<p>We will undertake specific work to review the system in place and controls being operated. We will rely on internal audit work in this area, where possible. We will assess arrangements during the year and report back any findings to the Audit Committee.</p>
<p>East Kent Opportunities</p> <p>I reviewed and am satisfied with the accounting treatment adopted in respect of EKO in 09/10. However, the accounting may be more complex 2010/11 under International Financial Reporting Standards, particularly in relation to future land disposals.</p>	<p>We will undertake specific work to review the Council's proposed accounting treatment of EKO under IFRS.</p>
<p>Relates Party Transaction Returns (RPT's)</p> <p>Although officers have established appropriate arrangements for the collection of RPT data, obtaining all members' returns appears to remain a difficult exercise.</p>	<p>We will review progress against the planned timetable for returns and report back any findings to the Audit Committee.</p>

Testing strategy

On the basis of 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.

18 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

19 Wherever possible, I will complete some 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 restatement of 2009/10 accounts from UK GAAP to IFRS.
- Review of IFRS accounting policies
- Bank reconciliation.
- Year-end feeder system reconciliations.

.Where I identify other possible early testing, I will discuss it with officers.

20 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use Internal Audit's work on shared payroll controls.

21 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 the KCC auditor for the pension fund.

22 I also plan to rely on the work of experts in the following areas:

- Gerard Eves - valuers
- Barnett Waddingham - pension fund actuary

Changes to International Standards on Auditing (ISAs)

23 My audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

24 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009, the auditing profession completed a comprehensive project to enhance the clarity of all of the ISAs. This is known as the Clarity Project.

25 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 the existing ISAs and improving their overall readability and understandability.

26 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 request from you. Appendix 3 sets out the main changes you will see.

Value for money conclusion

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

27 In 2010/11 the Audit Commission has introduced a new approach to its value for money assessment. In summary, the new approach is intended to be proportionate and risk based. 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.

Value for money risks

28 I will plan a programme of VFM audit work based on my risk assessment. At your Council, I envisage that we will focus on:

- your medium term financial strategy and savings plans;
- financial standing, including resilience of future cost efficiency plans; and
- development of shared service arrangements

29 The work will not be scored, but we will report back on our findings, including examples of good practice and any areas for improvement. We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

30 The key stages in producing and auditing the financial statements are in Table 2.

31 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

32 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
Control and early substantive testing	Jan 2011 - May 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	14 July 2011
Start of detailed testing	14 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011 (G&A committee date tbc)
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Andy Mack District Auditor	a-mack@audit- commission.gov.uk 0844 798 2846	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Lisa Robertson Audit Manager	l-robertson@audit- commission.gov.uk 0844 798 1378	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

33 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.

34 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 4.

Meetings

35 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 5.

Quality of service

36 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) who will look into any complaint promptly and to do what he can to resolve the position.

37 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

38 My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum [optional]	November 2011
Annual audit letter	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:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 27 June 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- 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 - Audit of Thanet District Council's Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) Whether you have knowledge of any actual, suspected or alleged frauds

4) How you gain assurance that all relevant laws and regulations have been complied with.

Please discuss the current arrangements and provide a formal response to Lisa Robertson (l-robertson@audit-commission.gov.uk) by letter or email by 30 April 2011.

Appendix 3 - Changes to International Standards on Auditing (ISAs)

The main changes you will see as a result of changes to International Standards on Auditing (ISAs) are as follows:

Journals

I will be required to review all material year-end adjustment journals. I can do this by using IT interrogation tools, depending on the compatibility of your general ledger software. Deborah Moorhouse, your Engagement Manager, will discuss a suitable approach to this work soon.

Related Party Transactions

I am required to review your procedures for identifying related party transactions and to obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in your financial statements are complete and accurate.

Accounting Estimates

I will be required 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 and the controls you have put in place;
- whether you use an expert to assist 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 level of 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.

Deficiencies in internal control

A new standard (ISA 265) has been introduced relating to how I must communicate deficiencies in Internal Control to 'those charged with governance' and the Trust's management.

If I identify a deficiency in any of your internal controls during my audit, I will undertake further audit testing to decide whether the deficiency is

significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as 'those charged with governance'.

Impact on Audit Fees

It is likely that these changes to the auditing standards will increase the audit procedures that I will need to carry out. However, as previously advised, the Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.

Appendix 4 - 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 Governance and Audit 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 2 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 5 - 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
Chief Executive & S151 officer	DA and AM	April and November	General update plus: April - Audit Planning November - Annual Audit Letter
Financial Services Manager	AM and Team Leader (TL)	Quarterly	General update plus: March - Interim June - Accounts Planning September - Annual Governance Report November - Annual Audit Letter
Finance Team	AM and TL	January	Accounts de-brief and audit planning
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual Audit Letter Qtrly updates including 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 6 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

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 that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial 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 financial 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 in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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 in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.