

# Audit plan

Oxfordshire County Council

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. I have based the plan on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities 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 Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of the accounting statements under the 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.**

## **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 additional risks relevant to the audit of the accounting statements at the County and have identified no significant risks.

## Testing strategy

My audit involves:

- reviewing and re-performing the work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of transactions and amounts.

I aim to:

- rely as much as possible on the work of your internal auditors, subject to review and re-performance; and
- do as much work as I can before you prepare your accounting statements.

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

Table 1: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Key financial Systems	Control accounts Journal controls			
Final visit			Mental health pooled budget hosted by Oxfordshire PCT- Audit Commission Pensions assets and liabilities – auditor to Oxfordshire Pension Fund – Audit Commission	Pensions assets and liabilities - Barnett Waddingham and our own consulting actuary Price Waterhouse Coopers Valuation of property, plant and equipment – Mouchel	All material accounts balances and amounts

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 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.**

I base my conclusion on your arrangements on two criteria, specified by the Audit 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 identified no significant risks at this stage.

# Key milestones and deadlines

You 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 2: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: documenting the systems and testing controls	Late 2011 – early 2012	Within Progress Reports
Opinion: receipt of accounts and supporting working papers	30 June 2011	
Opinion: substantive testing	July 2012 – September 2012	Annual Governance Report Auditor's report
Value for money conclusion	April 2012 – September 2012	Annual Governance Report Auditor's conclusion
Present Annual Governance Report at the Audit Committee	19 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's reports
Summarise overall messages from the audit	October 2012	Annual Audit Letter



# The audit team

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The key members of the team for the 2011/12 audit are as follows.

Table 3: **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 and Assistant Chief Executive and Chief Finance Officer.
Mary Fetigan Audit Manager	m-fetigan@audit-commission.gov.uk 0844 798 8978	Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Chief Executive and Chief Finance Officer and the Head of Corporate Finance.
Chris Baston Principal Auditor	c-baston@audit-commission.gov.uk 0844 798 2605	Team leads the key elements of audit work and attends Audit Committee as required.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's extra 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 this to you. I have therefore introduced the following safeguard to reduce the threat.

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Table 4: **Threats and safeguards**

Threat	Safeguard
The audit manager, Mary Fetigan, knows one of the Council's social workers.	Mary Fetigan will not carry out or review any of our work on social services expenditure.

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## 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 £244,350, as set out in my letter of 6 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £244,350 which represents a 10 per cent drop from 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 Financing 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 significant differences and have therefore set your fee at the scale fee.

## Assumptions

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

## 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 5: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	244,350	272,500	28,150
Certification of claims and returns	11,000 (est)	16,000 (est)	-
Non-audit work	0	0	-
<b>Total</b>	<b>255,350 (est)</b>	<b>288,500 (est)</b>	<b>-</b>

# Appendix 1 – Independence and objectivity

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

Table 6: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff 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.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of 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>	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.

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

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk to the audit of the accounting statements is not significantly different from that identified for 2010/11. For example:
  - internal controls are operating effectively;
  - I secure the co-operation of other auditors.
- The risk to my value for money responsibilities is not significantly different from that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes enough work on all systems providing material figures in the accounting statements for me to rely on it;
- The Authority 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;
  - 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)**

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

### **Commission (the)**

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

### **Ethical Standards**

Pronouncements of the APB 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.

## **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.

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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.

