

BABERGH DISTRICT COUNCIL

**From: Head of Corporate
Resources**

Report Number: M22

**To: Overview & Scrutiny
(Stewardship) Committee**

Date of Meeting: 15 May 2012

EXTERNAL AUDIT MATTERS

1. Purpose of Report

1.1 For Members to:

- Receive and approve the external audit plan for 2011/12, and
- Outline the position on the appointment of external auditors for the next 5 years.

2. Recommendations

2.1 That the External Audit Plan for 2011/12 be noted and approved.

2.2 That the Committee endorses the proposed response to the Audit Commission's consultation on the appointment of the external auditor to the Council for the next 5 years as set out in the report.

The Committee is able to resolve these matters.

3. Financial Implications

3.1 The audit fees for 2011/12 are allowed for in the Budget. Fees for future years are expected to reduce by 40%, based on the Audit Commission's proposals.

4. Risk Management

4.1 The Audit Plan for 2011/12 sets out key risks that the council is facing.

4.2 Although Babergh and Mid Suffolk currently have different auditors and they have been working very closely together on integration matters, having the same external auditor for both councils will eliminate duplication and differing views arising.

5. Consultations

5.1 None, other than with Mid Suffolk (see below).

6. **Equality Analysis**

6.1 An equality analysis is not required.

7. **Shared Service / Partnership Implications**

7.1 Mid Suffolk Scrutiny Committee will be considering the issue of the future appointment of auditors on the 24 May.

8. **Key information**

Background

8.1 Following abolition of the Audit Commission, new arrangements for the appointment of external auditors are being proposed from 2012/13 onwards.

8.2 These reflect a reduction in the core audit fee of 40% - around £40k for each Council with reductions also on the cost of grant claims work.

8.3 We are being consulted on the proposed appointments and, specifically, we can make representations if we believe that there should be the same auditor for both councils - in keeping with our integration work.

Further Details

8.4 It is being proposed that, for the next 5 years:

- Mid Suffolk's auditors change from the Audit Commission to Ernst and Young (Audit Commission staff transferring to provide continuity)
- The contract for Babergh's current auditors, PKF, is extended for the same period (Note: PKF did not win any of the 'new' contracts under the Audit Commissions procurement process).

8.5 This Committee has already indicated their preference for one auditor for both councils. Although Mid Suffolk Members have not commented on the matter, this would seem sensible.

8.6 The Audit Commission's appointment strategy states that representations will be appropriate.....

"Where the audited body is involved in formal and on-going joint working arrangements (for example, joint management team or shared back office functions or joint provision of major services with neighbouring bodies), which means it would be more appropriate for those bodies to have the same auditor."

- 8.7 Comments are to be submitted by the 25 May. If our representations are accepted, we will be consulted further on an alternative appointment. If our representations are rejected, there will be a further opportunity to make representations to a sub-committee of the Commission Board (the Board's Appointments Panel).
- 8.8 The Commission Board will consider all proposed appointments at its meeting scheduled for 26 July and they will write to all bodies to confirm the Commission's decision by 10 August.
- 8.9 Assuming Members agree that one auditor for both councils makes sense, there appear to be two options to our consultation response, on which views are sought:
- Option 1 – Request one auditor for both councils but leave the decision to the Audit Commission on who that is (but request further discussions/involvement on the final choice)
- Option 2 – Request one auditor for both councils and indicate our preference.
- 8.10 Management Board's view is that option 2 is the most appropriate approach and that we should indicate that the council would be happy for Ernst & Young to be appointed as auditors for Babergh (as they were the successful bidder in the Audit commission's procurement exercise). However, clarification will be needed on the extent of our existing commitment to PKF and the implications of transferring to them before the end of the current agreement.
- 8.11 We will communicate further as necessary with the Audit Commission and Members will be updated on the position at their July meeting.

9. **Appendices**

External Audit Plan 2011/12.

10. **Background Papers**

Audit Commission letter on the appointment of external auditors.

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Director of Finance

Appendix A

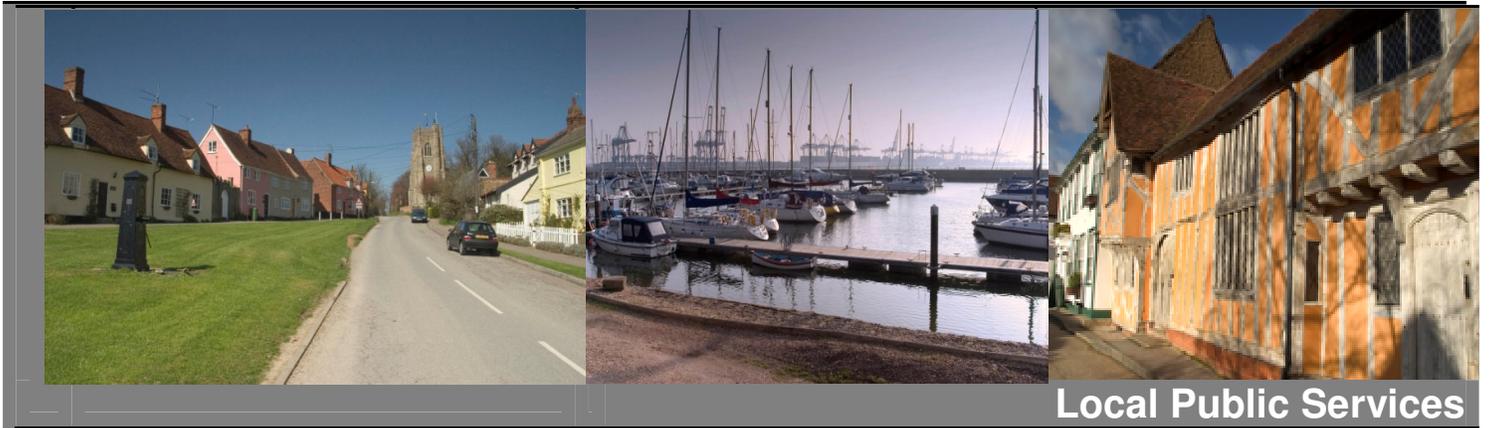


Accountants &
business advisers

Babergh District Council

Audit Plan 2011/12

April 2012



Local Public Services

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to the Overview and Scrutiny (Stewardship) Committee. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without prior written consent.

[Code of Audit Practice: Local Government](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 We are pleased to present our Audit Plan for the year ended 31 March 2012. This plan summarises the work that we propose to undertake in respect of our audit of Babergh District Council for the 2011/12 financial year.

Scope of the audit

- 1.2 The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (2010)* (the 'Code'), which covers two areas: provide an opinion on the financial statements, and to review the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).
- 1.3 We are also required to audit the Whole of Government Accounts return and to undertake work on specified grant claims and returns. We are in discussions with Internal Audit in respect of the Council's Internal Audit team undertaking some of the grant claim work on which we would then seek to place reliance for certification purposes.

Significant risks

- 1.4 Our audit is designed to respond to significant risks where we intend to focus additional resources in providing our opinion on the financial statements and our value for money conclusion.

Financial statements

- management override inherent risk

Value for money conclusion

- Integration with Mid Suffolk District Council
- Revenue and benefits shared service
- Savings targets.

Fees

- 1.5 The audit fee for the year is £106,970, a 5% (or £5,630) reduction compared to 2010/11. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2011. The assumptions we have made in setting the audit fee are set out in section 4.

Key outputs

- 1.6 The key reports, opinions and conclusions from the audit will be:
- report on any significant deficiencies in internal controls in May 2012, if required, based on the results of our interim audit visit
 - detailed report on the findings from the audit in September 2012
 - opinion on the financial statements by 30 September 2012
 - value for money conclusion by 30 September 2012
 - opinion on the Whole of Government Accounts return by 5 October 2012
 - summary of findings from the audit in the Annual Audit Letter in October 2012
 - report on the results of our grants certification work before February 2013.

2 Introduction

Code audit

- 2.1 The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (2010)* (the 'Code'), which covers two areas: provide an opinion on the financial statements, and to review the arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 2.2 The financial statements audit requires that we obtain assurance:
- that the accounts comply with statutory requirements
 - that proper practices have been observed in compiling the accounts
 - that they give a true and fair view of the financial position and the expenditure and income for the year
 - that the Annual Governance Statement is not inconsistent with our knowledge.
- 2.3 The use of resources audit requires we review and satisfy ourselves that:
- the organisation has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (financial resilience)
 - the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity (challenging economy, efficiency and effectiveness).

Whole of Government Accounts

- 2.4 Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.
- 2.5 The WGA return is audited in accordance with Audit Commission specified procedures and requires additional assurance to confirm that counter-party data is properly and accurately recorded. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

- 2.6 Grant-paying bodies may require certification of an authority's claim for grant or subsidy, or of a return of financial information. The Commission provides general guidance on the certification of claims and returns to auditors and also published guidance on good practice in Claims and returns. It also provides certification instructions which auditors must follow depending on the amounts involved and the auditor's assessment of the control environment for the preparation of the claim or return.
- 2.7 Certification work using certification instructions is not an audit but a different form of assurance engagement designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions.
- 2.8 For all specified grant claims and returns, we will undertake a review in accordance with the certification instruction and express a conclusion whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold). We are in discussions with your officers in respect of the Council's Internal Audit team undertaking some of the grant claim work on which we would then seek to place reliance for certification purposes.

Planned scope of the audit

- 2.9 The purpose of this audit plan is to:
- ensure that there is mutual understanding of the respective responsibilities relating to the audit
 - provide you with an overview of the planned scope of the audit for the year ended 31 March 2012
 - ensure that the areas of potential risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.
- 2.10 We will also provide reports to management and members on the findings of the audit which will focus on the key issues for the Council regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Co-operation with other bodies

- 2.11 The *Code* requires co-operation between auditors and other regulatory bodies including the National Audit Office to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors. We have already been working closely with the auditors of Mid Suffolk District Council.

3 Risk assessment

Significant financial statement audit risks

- 3.1 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and highlight any areas of concern to the Council.
- 3.2 The determination of significant risks is a matter for auditors' professional judgment. Auditing standards require that in exercising this judgment, auditors exclude the effect of identified controls related to the risk to determine whether the nature of the risk, the likely magnitude of the potential misstatement and the likelihood of the risk occurring are such that they require special audit consideration.
- 3.3 If you consider there to be other significant risks of material misstatement in the financial statements, whether due to fraud or error, or significant deficiencies in arrangements for securing economy, efficiency and effectiveness in the use of resources, please let us know.

Financial statements audit risks

- 3.4 Summarised below are the significant financial statement risks that impact on our audit of which we are currently aware. More detail on our proposed approach to addressing these risks can be found in Appendix A.

Management override inherent risk

- 3.5 Management override refers to the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding what might appear to be effective internal controls. Management is in a unique position to perpetrate or conceal the effects of fraud through recording fictitious journal entries, inappropriately adjusting assumptions and changing judgments used to estimate account balances, engaging in complex transactions that are structured to misrepresent the financial position, and altering records and terms related to significant and unusual transactions. Therefore, we are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards.

- 3.6 We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, perform a retrospective review of management judgments and assumptions related to significant accounting estimates in the prior year, and obtain an understanding of unusual transactions.

Other matters affecting our audit approach

Shared Revenues Partnership (SRP)

- 3.7 The revenues and benefits function transferred to the Shared Revenues Partnership (SRP) hosted by Ipswich Borough Council on 1 April 2011. Benefits, council tax and national non-domestic rates costs and income represent a significant amount of the Council's expenditure and revenue, there is a risk that claimant and other details may not have been accurately transferred to the new revenue and benefits partnership.
- 3.8 The SRP has also implemented a single IT system (Northgate) and data has been migrated from Babergh's system (Civica) during 2011/12.
- 3.9 We will review the controls put in place by the Council to mitigate the risk that details and data may not have been transferred accurately and also test a sample of transfer details to confirm that amounts are correctly calculated.
- 3.10 We will also be requesting assurances from Ipswich Borough Council's auditors over the controls in place over the new Northgate system. Note, this may result in additional fees being incurred by Babergh as under the Audit Commission's Standing Guidance, the audited body to which the principal auditor is appointed should agree to be responsible for the fees arising from any additional work the other auditor has to perform over and above that he would otherwise have to carry out. There is, however, no indication that this work is over and above what the auditors of Ipswich Borough Council are intending to carrying out

Integration with Mid Suffolk District Council

- 3.11 In 2011, Babergh and Mid Suffolk District Councils appointed a joint Chief Executive. During the 2011/12 financial year, the integration between the two Councils has continued and there is now a joint management team in post across the bodies and further restructuring to integrate the remaining staffing grades is on-going.

- 3.12 It is anticipated, that whilst the number of redundancies are not expected to be significant in number in 2011/12, the value is material to the financial statements. We understand that these costs and the associated savings will be split 50/50 regardless of which Council the staff member was employed by. Given the sensitivity of these costs and disclosures within the financial statements we will be reviewing the apportionment of costs and agreeing values reported to supporting documentation in detail. We will be working closely with Mid Suffolk District Council's auditors to ensure we are adopting a consistent approach.
- 3.13 Going forward it is anticipated there will be significant ongoing annual savings from integrated operations at service level and we will keep under review the allocation and accounting for these savings between the two authorities.

Updated value for money conclusion risk assessment

- 3.14 We have updated our value for money conclusion risk assessment for 2011/12 to take into account:
- matters arising from the completion of the 2010/11 audit
 - additional audit knowledge gained since our initial risk assessment which was included in our 2011/12 Audit Fee Letter, presented to the Audit Committee in April 2011.
- 3.15 We have not identified any significant risks as a result of our updated risk assessment in addition to our audit fee letter presented to the Overview and Scrutiny (Stewardship) Committee on 19 April 2011. These risks are reported in Appendix A to this report.

Other use of resources work

- 3.16 We will review the Audit Commission's *Value for Money Profile Tool* to identify any areas of concern over costs and performance data and discuss the findings with management.
- 3.17 This is not currently considered to be a significant risk although if there are any areas of concern from this review, we will bring this to the attention of the Council and discuss the impact on the potential to achieve further cost reductions and for improving efficiency and productivity.

4 Fees

- 4.1 As reported to you in our Audit Fee Letter in April 2011, the audit fee for the period April 2011 to March 2012 is £106,970 plus VAT.
- 4.2 The fee is based on our understanding of audit requirements and risks at the time of drafting this Plan.

Audit area	Planned fee 2011/12 £	Actual fee 2010/11 £
Financial statements, including WGA	65,400	67,950
VFM Conclusion, including risk based work	29,970	33,300
Planning and reporting	11,600	11,350
Total Code audit fee	106,970	112,600
Certification of claims and returns*	36,000	44,990

*The fee is lower because the number of claims requiring certification has reduced, this does not include any impact of Internal Audit undertaking any work as these discussions remain on-going.

- 4.3 If we need to make further significant amendments to the audit fee during the course of the audit, we will first discuss this with the Council's s151 Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Overview and Scrutiny (Stewardship) Committee.
- 4.4 During the course of this years audit we are committed to keeping under review whether further efficiency savings can be achieved in order to effect fee savings in the future.
- 4.5 As well as the audit fee of £106,970 identified above, the following fees are separately billable:

Questions and objections

- 4.6 Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Grants certification

- 4.7 Fees billed are based on the Audit Commission's grade related rates as set out in the Work Programme and Fee Scales on the basis of hours incurred.

- 4.8 Grant fees for claims and returns for the year ended 31 March 2011 have been completed and the outturn fee was £44,990 (including the Grants Report).
- 4.9 Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2012 to be approximately £36,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2011/12.
- 4.10 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
 - we will, after re-performing a sample of Internal Audits work, be able to place full reliance on the work of Internal Audit
 - you will keep us informed of any significant changes to your main financial systems, procedures or internal controls
 - you will provide the information requested in our records required listing in accordance with the agreed timetable and that there will be no significant departures from the timetable. The firm reserves the right to increase its fees should this not be the case or should we encounter unexpected problems, or issues arise, causing significant additional work.
 - time spent dealing with problems or issues arising is usually that of senior people and hence the cost will necessarily often be disproportionate to the original fee
 - you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
 - there are no major changes to the content of government department grant instructions.
- 4.11 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2011/12 and our consideration of your annual governance statement in your 2010/11 financial statements.

5 Audit arrangements

Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

	Role and responsibility
Engagement Partner Richard Bint Email: Richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Overview and Scrutiny (Stewardship) Committee.
Senior Manager Zoe Thompson Email: zoe.thompson@uk.pkf.com Tel: 01473 320734	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and value for money work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Senior Sam Mason Email: sam.mason@uk.pkf.com Tel: 01473 320795	Responsible for managing our audit team undertaking fieldwork on site for accounts.

Timetable

- 5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing	Report
Financial statements		
Review of internal controls	March 2012	April - September 2012
Audit opinion covering the financial statements	August 2012 to September 2012	September 2012
Opinion on the Whole of Government Accounts return	September 2012	October 2012
Value for money		
Value for money conclusion	April 2011 to September 2012	September 2012
Annual reporting		
Annual audit letter	October 2012	October 2012
Grants		
Grants report for claims and returns for the year ended 31 March 2012	May – December 2012	February 2013

- 5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

Communication

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you.
- 5.5 Communication may take the form of discussions or, where appropriate, be in writing.
- 5.6 If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as is practicable.

- 5.7 Our contact for communications will be the Overview and Scrutiny (Stewardship) Committee. When communicating with the Overview and Scrutiny (Stewardship) Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.
- 5.8 We have included in Appendix C to this Plan a statement to the Overview and Scrutiny (Stewardship) Committee setting out the Audit Commission's objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 5.9 We will communicate the following matters to you, where applicable:
- Significant deficiencies in internal control identified during the audit
 - Significant qualitative aspects of the entity's accounting practices including the application of the applicable financial reporting framework
 - Significant matters discussed, or subject to correspondence with management or other employees
 - Uncorrected misstatements and material misstatements that have been corrected by management in the Statement of Accounts
 - Other significant matters relevant to the financial reporting process
 - Material uncertainties relating to going concern
 - Written representations that we are requesting from you or from other parties
 - Expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor's report
 - Significant difficulties that we have encountered during the course of the audit.

Materiality and triviality

- 5.10 Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.
- 5.11 For reporting purposes, we consider misstatements of less than £15,000 to be trivial, unless the misstatement is indicative of fraud.

Uncorrected misstatements

- 5.12 We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial.
- 5.13 We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements be corrected.

Independence and objectivity

- 5.14 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice and Standing Guidance for Auditors which include the requirement to comply with the International Standards on Auditing (ISA). ISA (UK and Ireland) 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.
- 5.15 In relation to the audit of the financial statements for Babergh District Council for the financial year ending 31 March 2012, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with.
- 5.16 Under the requirements of ISA (UK & Ireland) 260 – Communication with those charged with governance, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staffs which are required to be disclosed.

Quality of service

- 5.17 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 5.18 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 5.19 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website <http://www.audit-commission.gov.uk/complaints/>

Appendix A

Value for money risk assessment matrix

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
Value for money conclusion			
1	<p>Integration with Mid Suffolk District Council</p> <p>The Council has a new Joint Chief Executive coming into post during 2011/12 with further Executive Team integration also due to take place during the financial year as part of the on-going closer working relationship considerations between the two organisations. Strategies and policies are being aligned to each other to develop a consistent approach.</p> <p>Key areas of risk during these transitional times are:</p> <ul style="list-style-type: none"> • Redundancies • Monitoring of costs • Legality of arrangements <p>Delivery of priorities and savings targets.</p>	<p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness</p>	<p>We will review the Council's progress in relation to integration throughout the year and commence liaison meetings with the Auditors of Mid Suffolk District Council.</p> <p>We will also monitor the costs and savings being made in relation to this initiative in relation to the Council's overall delivery against budget.</p>
2	<p>Revenues and benefits shared service</p> <p>The shared service arrangement commenced on 1 April 2011. This needs to demonstrate value for money and the anticipated level of savings whilst also maintaining the same level of quality of service.</p> <p>There has also been a change in the benefit system from the previous provider Civica part way through the financial year where a significant amount of data was transferred to the new system.</p>	<p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness</p>	<p>We will monitor the post implementation phase of the Shared Revenues Partnership and the data transfer through our regular liaison with Officers.</p> <p>We will also seek assurances from the Auditors of the Shared Revenues Partnership host over the controls in place over the system and service area to form part of our Understanding.</p>

3	<p>Savings targets</p> <p><i>The Council has a significant level of savings, efficiencies and additional income to deliver in 2011/12 totalling £1.7m.</i></p> <p><i>Members and Officers have been engaged in the process of identifying the savings proposals but the approved budget recognises that there are a number of risks and uncertainties associated with the achievement of the overall budget.</i></p>	<p><i>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness</i></p>	<p><i>We will monitor the Council's financial position throughout the year and undertake a review of the progress against the savings plan to inform our value for money conclusion.</i></p>
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Italics = reported in fee letter presented to the Audit Committee on April 2011

Non-italics = new risk

Financial statements risk assessment matrix

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Financial statements			
1	<p>Management override</p> <p>Management override is a non-rebuttable significant risk raised by the clarified ISA's.</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p>	<p>Financial Statement as a whole.</p> <p>The risk will affect all assertions.</p>	<p>Emphasise that professional scepticism is to be maintained throughout the audit. We will evaluate whether judgments and decisions made by management in making accounting estimates indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud.</p> <p>We will review a sample of journals at the year end and throughout the year to identify if they are bonafide.</p>

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements “are true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- consider the robustness of your financial statements preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable to preparation of the financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Internal controls and significant financial systems

As part of our audit we obtain an understanding of the entity’s system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

We will report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control identified during the audit we will also report those to those charged with governance.

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input. We will seek to rely on the work of Internal Audit to provide assurance over key controls within the financial systems.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

We have discussed possible risk of material misstatement arising from fraud with the following individuals:

- John Snell – Internal Audit
- Barry Hunter – Director of Finance.

These discussions have identified a number of instances of alleged benefit fraud during the financial year where the investigation has either been concluded or remains on-going. No instances of Corporate fraud have been communicated to us.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited financial statements and the consolidation pack, and the agreement of balances with other bodies.

Value for money (VfM) conclusion

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will plan a programme of VfM audit work based upon our risk assessment.

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