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# Audit Plan 2012/13

BABERGH DISTRICT COUNCIL

APRIL 2013



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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 Members or officers. 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.

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

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# Executive summary

We are pleased to present our Audit Plan for the year ending 31 March 2013. This plan summarises the work that we propose to undertake in respect of our audit of Babergh District Council (the Council) for the 2012/13 financial year.

## SIGNIFICANT RISKS

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: Auditing standards presume that a risk of management override of controls is present in all entities. This risk is “non-rebuttable” (cannot be mitigated).
- Revenue recognition: Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council’s stated accounting policies or from an inappropriate use of estimates in calculating revenue. This significant risk is in relation to the recognition of revenue arising from fees and charges only.

## FEES

The proposed audit fee for the year is £64,182 plus VAT, which agrees to the scale fee published by the Audit Commission.

The proposed fee for the certification of claims and returns is £21,150 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

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## KEY OUTPUTS

The key reports, opinions and conclusions from the audit will be:

- report on any significant deficiencies in internal controls in May 2013, if required, based on the results of our interim audit visit
- detailed report on the findings from the audit in September 2013
- opinion on the financial statements by 30 September 2013
- value for money conclusion by 30 September 2013
- assurance statement on the Whole of Government Accounts return by 4 October 2013
- summary of findings from the audit in the Annual Audit Letter in October 2013
- report on the results of our grant claims and returns certification work before February 2014.

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# Scope of the audit

## PURPOSE OF THE AUDIT PLAN

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 2013
- 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.

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.

## RESPECTIVE RESPONSIBILITIES

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

### **Code audit**

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: to 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).

The financial statements audit requires that we obtain assurance that:

- the financial statements comply with statutory requirements
- proper practices have been observed in compiling the financial statements
- the financial statements give a true and fair view of the financial position and the expenditure and income for the year
- the information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements
- the Annual Governance Statement is not inconsistent with our knowledge.

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### **Value for money 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.

The focus of the criteria for 2012/13 is:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will plan a programme of value for money audit work based upon our risk assessment.

### **Whole of Government Accounts**

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.

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**

As an agent of the Audit Commission we will undertake a review of grant claims and returns in accordance with the certification instruction issued by the Audit Commission. We 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).

### **ENGAGEMENT PARTNER**

Richard Bint is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance, and for the reports that will be issued on behalf of the firm.

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# Risk assessment

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. The determination of significant risks is a matter for auditors' professional judgment.

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.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

## FINANCIAL STATEMENTS AUDIT RISKS

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. The audit planning process for 2012/13, including risk assessment, will continue as the year progresses and any significant changes will be reported to the new Audit Committee that has been established by the Council following the recent Governance review.

### **Management override inherent risk**

Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.

### **Revenue recognition**

Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.

We have considered the Council's sources of income in this context and have determined that there is a significant risk in relation to the recognition of revenue arising from fees and charges. We will respond to this risk by substantively testing a sample of fees and charges income to ensure that this income is correctly reflected in the financial statements.

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The following do not constitute significant audit risks but are factors which we will take into consideration when designing our audit approach:

- in the prior year we encountered a number of difficulties auditing balances maintained by the Shared Revenues Partnership (SRP). We have included the reports we require to undertake our audit testing on our Records Required Listing and have contacted the SRP to ensure year end reports are run from the system
- the Council has not previously de-recognised any replaced components (written constituent bigger parts of assets (e.g. kitchens in council houses) out of the books when they are replaced). Whilst the amounts in prior years have been immaterial, we will discuss with management their approach to this for 2012/13
- during the year the Council transferred administration of its payroll function to CSD (Customer Service Direct) and we will review the controls in place over this arrangement
- we will keep under review the 50/50 split of integration costs and savings between this Council and Mid Suffolk District Council to ensure this basis remains appropriate.

#### USE OF RESOURCES AUDIT RISKS

We have undertaken our value for money risk assessment for 2012/13. This takes into account matters arising from the completion of the 2011/12 audit and additional audit knowledge gained from our regular liaison meetings and planning processes. We have also considered the impact of other regulators' work throughout the year as part of our evaluation of the arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks for our value for money conclusion from our initial risk assessment work but note the following matters which we will consider within the conclusion criteria:

- The Council continues the integration process with Mid Suffolk District Council with significant organisational change continuing in 2012/13 and beyond. Forecast savings from staff costs are expected to at least meet and possibly exceed expectations as the restructuring of services and associated staff carries on. Successful delivery of full integration between the two Councils and the transformation programme/plans are key to achieving the level of savings required in the medium term.
- The Council is facing significant further reductions in government funding creating significant financial challenges and the need to deliver savings in the short and medium term. The target level of savings efficiencies and additional income in 2012/13 was £1.1m and we will continue to monitor progress in identifying and delivering against annual Budget savings targets.

We will also monitor:

- The Governance Review process and outcomes from the Joint Constitutional Review Group and implementation of any revised structures
- Localisation of council tax support and national non-domestic rates and the impact on staff capacity and on the medium term financial position

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- Delivery of the Housing Revenue Account (HRA) 30 year business plan following implementation of HRA reform.

We will also review the Audit Commission's:

- Financial Ratios data to identify any areas of concern over spending commitments, funding levels, and reserves and balances when compared to other district councils.
- Value for Money Profile Tool to identify any areas of concern over costs and performance data and discuss the findings with management and share this with officers to inform the council's work on transformation and savings.

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# Fees

## FEE SUMMARY

The fee for the Code audit of the Council for the year is £64,182 plus VAT. This is based on our current assessment of the risks and the work required under the Code.

Audit area	Proposed fee 2012/13	Outturn fee 2011/12
<b>Scale audit fee</b>	£64,182	£106,970
Additional risk based work	-	-
<b>Total Code audit fee</b>	<b>£64,182</b>	<b>£106,970</b>
Certification of claims and returns, including grants report	£21,150	£61,717
<b>Non-code assurance and advisory work</b>	-	-

### Code audit

The initial scale fee for 2012/13 has been determined by the Audit Commission as £64,182, which is lower than the 2011/12 fee to reflect the combination of outsourcing the Audit Commission's in-house Audit Practice and internal efficiency savings at the Audit Commission. It has not been necessary to make any amendments to the scale fee for 2012/13 at this stage.

As the indicative fee is at scale, there is little scope to reduce the audit fee in future years.

### Questions and objections

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.

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### Grants certification

The Audit Commission has published the indicative fee for certification work for each local authority. The Audit Commission has the power to determine the fee for certification work above or below the indicative fee where it considers that more or less work was required than originally envisaged. This will be based on information provided as part of the Audit Commission's overall monitoring arrangements.

### ASSUMPTIONS

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, to an adequate standard, and we are able to place full reliance on this work
- there are no further significant changes to your main financial systems or internal controls
- you will provide the information requested in our records required listing in accordance with the agreed deadline and that there will be no significant departures from the timetable
- 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 Audit Commission instructions or guidance.

The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. We reserve the right to increase fees, subject to prior approval from the Audit Commission, should the above assumptions not be met or where we encounter unexpected problems, or issues arise, causing significant additional work. Time spent dealing with problems or matters arising is usually that of senior people and hence the cost will often, necessarily, be disproportionate to the original fee.

### BILLING ARRANGEMENTS

Your audit fee is being billed as follows:

	LG
September 2012	£32,091
December 2012	£16,046
March 2013	£16,045
<b>Total</b>	<b>£64,182</b>

# Key outputs

The key reports, opinions and conclusions from the audit will be:

Output	Dates
<b>Financial statements</b>	
Review of internal controls	April 2013
Final audit visit	August - September 2013
Audit opinion covering: <ul style="list-style-type: none"> <li>• 'true and fair' opinion on the financial statements</li> <li>• information in the Statement of Accounts being consistent with auditor's knowledge</li> <li>• Annual Governance Statement prepared in accordance with guidance and not inconsistent with auditor's knowledge</li> </ul>	Clearance meeting to be held early September 2013 Audit Committee meeting in September 2013 Opinion deadline 30 September 2013
Opinion on the Whole of Government Accounts return	Submission by 4 October 2013
<b>Use of resources</b>	
Review of economy, efficiency and effectiveness	February – September 2013
Value for money conclusion	Deadline 30 September 2013
<b>Grants</b>	
Audit of grant claims and returns	August – November 2013
<b>Reporting</b>	
Report on any significant deficiencies in internal controls (if required)	May 2013
Annual Governance Report to the Audit Committee	September 2013
Annual Audit Letter	October 2013
Grants report	Before February 2014

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

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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

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. Communication may take the form of discussions or, where appropriate, be in writing.

Our contact for communications will be the Corporate Manager – Financial Services and the Audit Committee. When communicating with the Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

### 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.

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit and to effectively target work and minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit to provide assurance over key controls within the financial systems.

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.

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## MATERIALITY AND TRIVIALITY

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.

For reporting purposes, we consider misstatements of less than £15,000 to be trivial, unless the misstatement is indicative of fraud.

## FRAUD RISK ASSESSMENT

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and “those charged with governance” (the Audit Committee).

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 will discuss the possible risk of material misstatement arising from fraud with the following individuals:

- Barry Hunter – Corporate Manager – Financial Services
- John Snell – Corporate Manager – Internal Audit

Please keep us informed of any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds identified, we will consider the possible impact on your financial statements and our audit programme.

## INDEPENDENCE AND OBJECTIVITY

We are required 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.

In relation to the audit of the financial statements for the Council for the financial year ending 31 March 2013, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

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## QUALITY OF SERVICE

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, Simon Michaels. Any complaint will be investigated carefully and promptly.

If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the Audit Commission's complaints handling procedure is detailed on their website <http://www.audit-commission.gov.uk/aboutus/contactus/complaints/Pages/default.aspx>

## Appendix A – Financial statements risk assessment matrix

	Audit risk identified from planning	Accounts area and assertions	Audit response
1	<p><b>Management override</b></p> <p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p>	<p>Financial statement level risk across all account headings and assertions</p>	<p>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, and obtain an understanding of unusual transactions.</p>
2	<p><b>Revenue recognition</b></p> <p>Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council’s stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>This significant risk is in relation to the recognition of revenue arising from fees and charges.</p>	<p>Occurrence and cut-off of income</p>	<p>We will substantively test a sample of income from fees and charges and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.</p>

## Appendix B – Value for money risk assessment matrix

	Audit risk identified from planning	Relevant UoR area	Audit response
1	No significant risks have been identified.		

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