

Plymouth City Council

Audit Plan 2010-11

December 2010



An overview of your 2010-11 Audit Plan

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

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a major change and challenge, the general level of risk in relation to the audit would not be significantly different from that identified for 2009-10. Following the completion of the 2009-10 audit we have updated our accounts audit risk assessment.	See Accounts risk assessment
In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010-11 we will give our value for money conclusion based on two criteria specified by the Audit Commission focusing on financial resilience and prioritising resources.	See Value for Money audit
We have introduced a new audit manager, Kate Jefferies, to the Council in 2010. Other members of the team remain the same so that we maintain continuity. As in previous years, we will use specialists from across Grant Thornton to support our work.	See Engagement team
We have used the Audit Commission scale of fees work programme for 2010-11 to calculate your audit fee, which is at the prescribed level.	See Audit fee
You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work to provide our opinion on the accounts and VFM conclusion and culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. We comply with the Audit Commission's requirements in respect of independence and objectivity	See Appendix A

Accounts risk assessment

Introduction

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

The Council's responsibilities

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

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

Our responsibilities

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

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



Accounting risks and planned audit response

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

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Preparation of 2010-11 financial statements does not comply with the requirements under International Financial Reporting Standards (IFRS)	All areas of the financial statements	<ul style="list-style-type: none"> • Specialist technical support will be made available to the Council through the provision of IFRS training and seminars and responding to technical queries. • We will review the implications of any developing issues through reference to IFRS guidance and the finalised IFRS Code and discuss with the Council accordingly. • We will undertake an initial review of the Council's restatement of its opening balance sheet and 2009-10 comparatives to IFRS and provide feedback on the treatment of balances and where additional action may be required to ensure correct treatment in line with the new standards. • We will liaise with the Council to ensure that arrangements are in place to assess the effect of IFRS on its group accounting, and that sufficient information is available from subsidiaries to support the restatement process and align their accounting policies with the Council.
Insufficient finance team resources available to deliver statutory requirements by 30 June 2011	All areas of the financial statements	<ul style="list-style-type: none"> • We will continue to monitor the Council's progress against its IFRS project plan to ensure that they remain on track to prepare the restatement entries and first set of IFRS accounts by 30 June 2011. • Specialist technical support will be made available to the Council as required through the provision of IFRS training and seminars and responding to technical queries to support them in the transition process.
Financial performance pressures affecting the Council's ability to deliver its budget and provide services to the public	All areas of the financial statements	<ul style="list-style-type: none"> • We will review the Council's financial performance for the year against its agreed budget. • We will review the Council's progress in achieving the required level of savings against its savings plan. • We will consider the use of general reserves during the year.
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> • We will review any valuations undertaken to ensure that these are in compliance with the requirements of IFRS, particularly in relation to the valuation of schools being performed this year. • Where possible, work will be undertaken at our interim visit.

Accounts audit - approach

Audit approach

We will:

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

In summary our audit strategy comprises:

Planning	Updating our understanding of the Council through discussions with management and a review of the management accounts
Control evaluation	Reviewing the design and implementation internal financial controls including IT, where they impact the financial statements Assessing audit risk and developing and implementing an appropriate audit strategy Testing the operating effectiveness of selected controls Assessing internal audit against the CIPFA Code of Practice
Substantive procedures	Reviewing material disclosure issues in the financial statements Performing analytical review Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	Performing overall evaluation Determining an audit opinion Reporting to Audit Committee

Accounts audit - other work

Other issues

Annual Governance statement

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

Whole of Government Accounts

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

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

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

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

Certification of Grant Claims and Returns

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

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

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

National Fraud Initiative (NFI)

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

Value for money audit

Introduction

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

2010-11 VFM conclusion

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

- securing financial resilience; and
- prioritising resources within tighter budgets.

Code criteria



Work to be undertaken

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

Specifically we will:

- undertake a detailed review of the Council's medium term financial strategy and its strategy for identifying, implementing and monitoring cost reductions and savings;
- consider the Council's financial performance against Local Government financial ratios;
- consider the Council's response to the CSR the impact that this will have on the Council's financial planning; and
- review the Council's procurement arrangements to ensure that these are delivering the planned efficiencies and new opportunities for savings are being identified and implemented.

On completion of the initial risk assessment, we will agree with the Council whether further work may be required to address any high risk areas identified.

Value for money audit

Code criteria

Work to be undertaken

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

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

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

Specifically we will:

- consider the arrangements the Council has in place to ensure effective project management and that there is effective post-implementation reviews of projects;
- review the Council's arrangements for ensuring that effective mechanisms are in place for delivering the developments in adult social care, including partnership working to support the PCT's plans to establish a social enterprise trust; and
- review how the identification of savings, efficiencies and investments reflect corporate priorities.

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

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



Engagement team

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



Barrie Morris (CPFA)
Engagement Lead
T 0117 305 7708
E barrie.morris@uk.gt.com

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

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



Kate Jefferies (ACA)
Audit Manager
T 0117 305 7678
E kate.jefferies@uk.gt.com

Kate is responsible for managing the audit and is the main contact for officers within the Corporate Support Directorate. Kate will provide feedback to the Council throughout the audit process and is the first point of contact during the year for discussing and resolving technical accounting issues that may arise and will liaise closely with the Council's internal audit department to minimise duplication of work



Chris Roach (CIPFA)
In-charge Auditor
T 0117 305 7720
E chris.roach@uk.gt.com

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



Negat Sultan
IT Audit Manager
T 0116 247 5590
E negal.sultan@uk.gt.com

Negat is responsible for review of the Council's IT systems to complement the financial accounts process. Negat also takes the lead on any additional work required in areas such as data quality and security.

Audit fee

What is the scale audit fee?

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

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

How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010-11. For the Council, the scale calculation includes a fixed element for a unitary council and a percentage of planned gross expenditure as determined by the Audit Commission.

Variations to the scale audit fee

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

2010-11 audit fee

As set out in our indicative Audit Fee Letter issued in March 2010, the total indicative fee for the audit for 2010-11 was £335,978 (exclusive of VAT), this is compared to the fee of £319,441 for 2009-10 .

The scale audit fee for the Council has been calculated at £335,978.
The audit fee proposed for 2010-11 is in line with the above scale fee.

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

The proposed work programme and scales of fees 2011-12 issued for consultation by the Audit Commission in December 2010, indicates that a rebate of 3.5% on the 2010-11 fee will be paid directly to the Council early in the New Year. This is in addition to the earlier rebate of 6% for the additional audit costs arising from the transition to International Financial Reporting Standards (IFRS). The effect of these two rebates is to reduce the total audit fees for 2010-11 by an estimated £31,918.

Audit fee

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

Table 2: 2010-11 audit fee

Audit area	Planned fee 2010-11	Planned fee 2009-10
Financial statements, including WGA	£220,066	£206,904
VfM conclusion	£115,912	£110,827
Total audit fee	£335,978	£319,441
Certification of claims and returns*	£55,000(est.)	£80,000(est.)

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

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

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

The Audit Commission confirmed to councils in this letter that the new approach will mean a reduction in audit fees from 2011-12. For 2010-11, the Commission has announced rebates of 9.5% on the scale fee. The Audit Commission also confirmed that it did not intend to charge inspection fees for work carried out in 2010-11 in relation to the managing performance part of the organisational effectiveness assessment as this had no value once CAA ended.

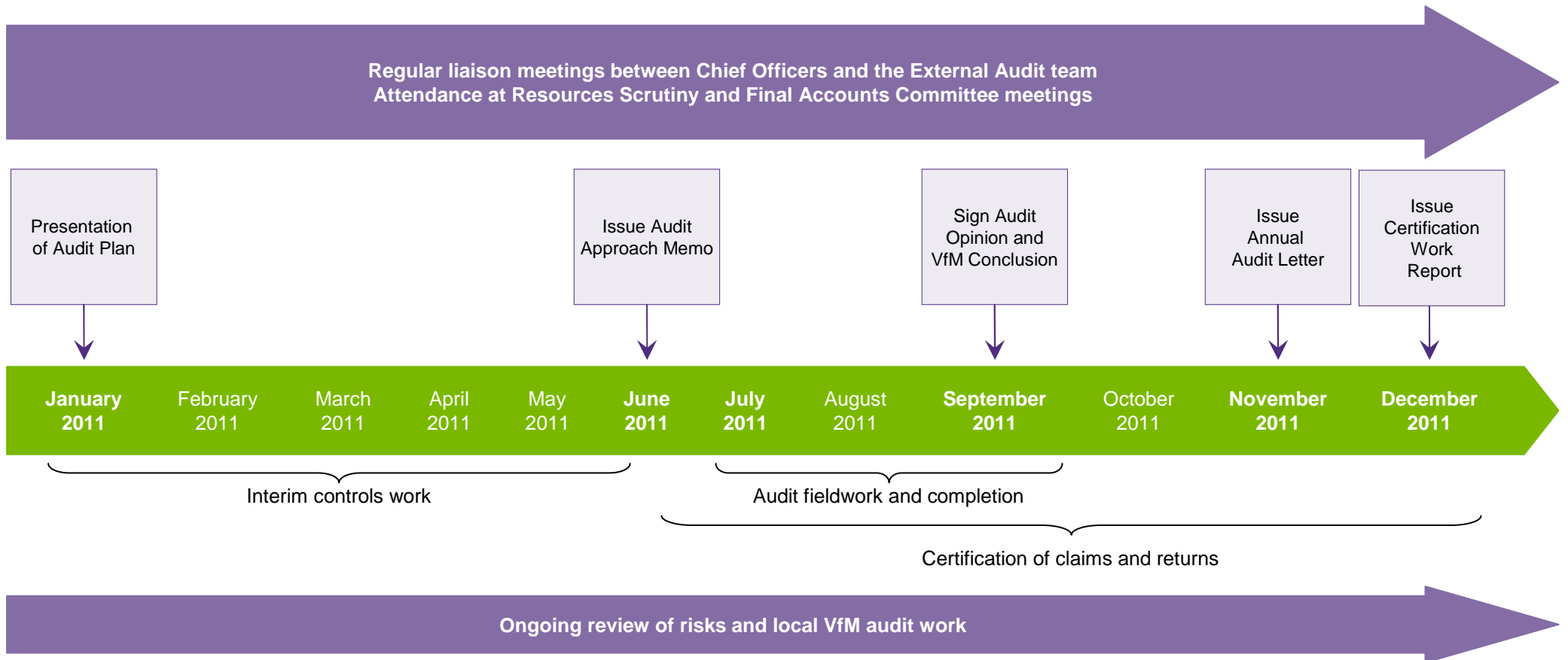
Outputs

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

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

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

Timeline



Appendix A

Independence and objectivity

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



© 2010 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP,
a limited liability partnership.

Grant Thornton UK LLP is a member firm within
Grant Thornton International Ltd ('Grant Thornton International').
Grant Thornton International and the member firms are not
a worldwide partnership. Services are delivered by the member
firms independently.

This publication has been prepared only as a guide.
No responsibility can be accepted by us for loss occasioned
to any person acting or refraining from acting as a result of
any material in this publication.

www.grant-thornton.co.uk