

Plymouth City Council

Audit plan 2011/12

February 2012









Content

An overview of your 2011/12 Audit Plan	1
Accounts audit – introduction	2
Accounts audit – risk assessment	3
Our Approach	6
Accounts audit – other issues	7
Accounts audit – public reporting	8
Value for Money Audit	9
Engagement team – key contacts	9
Engagement team – specialist support	10
Audit fee	11
Outputs	12
Timeline	13
Appendix A - Independence and objectivity	14
Appendix B - Keeping you up to date	19

An overview of your 2011/12 Audit Plan

This is our audit plan for the financial year 2011-12 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 (VfM).

<p>We set an indicative fee in March 2011. In setting this fee, we assumed that the general level of risk in relation to the audit would not be significantly different from that identified for 2010/11. Following the completion of the 2010/11 audit we have updated our accounts audit risk assessment.</p>	 <p>See Accounts audit</p>
<p>The new approach to local Value for Money audit work was introduced by the Audit Commission in 2010/11. In 2011/12 we will continue to give our value for money conclusion based on two reporting criteria specified by the Audit Commission.</p>	 <p>See Value for money audit</p>
<p>As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.</p>	 <p>See Engagement team</p>
<p>We have used the published 2011/12 Audit Commission scale of fee for the Council as our proposed fee. The planned fee of £302,380 remains as per the Indicative Fee letter (issued in March 2011).</p>	 <p>See Audit fee</p>
<p>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 culminating in the issue of our Annual Audit Letter to the Council.</p>	 <p>See Outputs and timeline</p>
<p>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.</p>	 <p>See Appendix A</p>

Accounts audit – introduction

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2011/12 accounts at the Council. The plan is based on our risk-based approach to audit planning and uses 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.

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.



Accounts audit – risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response. The majority of these are in relation to Property Plant and Equipment following our audit last year and events that have arisen as part of our planning of the 2011/12 audit and new accounting requirements. We continue to liaise closely with members of the Council's finance department on these matters in the lead up to the final accounts audit and we will discuss our approach to the audit with senior financial and departmental management. We have also agreed to undertake a final accounts planning workshop at the Council's Management Team in March 2012. The aim of this workshop is to guide accountants through the audit process and approach, focusing on our approach to analytical review and the streamlining of the audit process. We intend to undertake a further liaison session prior to the commencement of the final accounts audit in June 2012.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Work completed
Accounting for Property, Plant and Equipment	Property plant and equipment	<p>Accounting for Heritage assets.</p> <ul style="list-style-type: none"> The Council will be required to disclose heritage assets as a separate category of assets for the first time in its 2011/12 accounts. We will review the categorisation and valuation of heritage in the first year of disclosure.
Accounting for Property, Plant and Equipment	Property plant and equipment	<p>Adoption of the new asset register</p> <ul style="list-style-type: none"> The Council have introduced a new asset register in year. We will review the transition arrangements to ensure that all data is correct. We will also perform testing on the new asset register to ensure that accurately records in year transactions accounting for the many changes notes below.

Key audit risk	Audit areas affected	Work completed
Accounting for Property, Plant and Equipment	Property plant and equipment	<p>Community Assets</p> <ul style="list-style-type: none"> We will review the reclassification of community assets following our recommendations made in our ISA260 report for 2010/11.
Accounting for Property Plant and Equipment	Property plant and equipment	<p>Life centre and impairment of the Mayflower Centre and swimming pool.</p> <ul style="list-style-type: none"> We will review the valuation of the above assets and the any impairment and accounting entries now that they have been brought into operational use.
Tamar Bridge and Torpoint Ferry Joint Committee – inclusion within the single entity accounts.	All areas of the financial statements	<p>Tamar bridge and torpoint ferry joint committee inclusion in Plymouth City Council's accounts</p> <ul style="list-style-type: none"> Through on-going discussions with the Council and the Audit Commission – auditors for Cornwall Council, we will review the accounting treatment for the inclusion of the Tamar Bridge and Torpoint Ferry Joint Committee in Plymouth City Council's single entity accounts for 2011/12. As part of this review we will test the accounting entries and associated disclosures for accuracy. We will also consider any impact on the Group accounts and adjust our testing strategy accordingly.
Disclosures and comparatives	HRA and bad debt provision	<p>Removal of HRA and adjustments to the bad debt provision and Council tax debtors</p> <ul style="list-style-type: none"> We will continue to discuss the impact upon disclosure requirements following the removal of the Housing Revenue Account. We will review the adjustments made for the bad debt write off of Council tax debtor The Council are also performing a detailed review of the accounts and disclosure requirements. We will work with the council to agree a suitable template and way forward as part of this exercise.

Key audit risk	Audit areas affected	Work completed
<p>Control weaknesses in the Council's IT systems are not addressed</p>	<p>All areas of the financial statements</p>	<p>Using our specialist IT auditors, we will provide the Council with an expert view on the Council's IT control environment We will follow up on the reviews undertaken in 2010/11 to ensure that control weaknesses previously identified have been addressed</p>
<p>Issues arising from our 2010/11 accounts audit</p>	<p>All areas of the financial statements</p>	<p>Follow up of issues identified in previous years As part of our interim audit, we will review progress against the recommendations made in our 2010/11 ISA260 report and consider whether adequate closedown arrangements are in place for the production of the 2011/12 financial statements.</p>

Our Approach

We will utilise Voyager, our audit software package, to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. Voyager also helps us to comment constructively on your system of internal controls.

Our approach will be to report all findings to management so that the Council can choose to secure improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

Planning

- Updating our understanding of the Council through discussions with management and a review of the monthly finance reports

Controls 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
- Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements
- Testing the operating effectiveness of selected controls
- Assessing internal audit against the CIPFA Code of Practice

Substantive process

- 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 of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit Committee through our ISA 260 report

Accounts audit – other issues

Additional Assurance work

To support the audit opinion for 2011/12, we will undertake the following reviews:

- VAT - work is planned to review the current arrangements the Council has in place are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation
- PAYE - We will undertake a review of the arrangements the Council has in place regarding taxation associated with payroll, including National Insurance and PAYE. This will look to provide assurance over the figures recorded within the financial statements are true and fair and calculated appropriate and in accordance with current legislation
- Fraud - we will use our forensic team to review the overall adequacy of the Council's arrangements to ensure that fraud and corruption are addressed effectively.

Whole of Government Accounts

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

Certification of Grants and Returns

In addition to our audit of the Council's financial statements and the Value for Money audit, 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 Commissions 'Work programme and scales of fees 2011-12.'

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. We are in the process of arranging a series of planning meetings with Housing Benefit staff to agree a work programme for the BEN01 grant claim.

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.

Accounts audit – public reporting

Annual Governance Statement and External Reporting

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.

We will assess the Council's external reporting, through the 2011/12 Annual Governance Statement and explanatory foreword to the accounts, against best practice and will use our benchmarking tool, containing data from over 200 UK local authorities, to measure the Council against existing sector practice. This will enable us to identify areas where the Council is performing well and areas where there is scope to improve to improve external reporting to move towards 'best in class' in 2011/12 and beyond.

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.

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 (VfM) conclusion.

2011/12 VfM conclusion

The Value for Money approach for 2011/12 remains the same as the prior year. Our VfM conclusion will be based on two reporting criteria specified by the Audit Commission:

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

The work we will do to conclude on these criteria is summarised in the following charts: In many of the following areas we have suggested that a preliminary overview will be undertaken so that we can assess whether, further, more detailed work is required. We will agree any further work with management and update members on the progress of our work.

Code criteria

The Council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

Work to be undertaken

We will perform risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- undertake a follow up review of the recommendations made in our 2010/11 financial resilience report report;
- we will review the financial performance of the Council throughout the year and in relation to the medium term financial planning process.

As part of the work detailed above we will focus our attention on the efficiency savings planned from the review of Council accommodation and back office functions.

Value for money Audit

Code criteria

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

Work to be undertaken

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

Specifically we will:

- review the Council's performance against priority areas and the Council Plan taking into consideration key target areas and resultant outcomes;
- review progress made following our review of procurement in 2010/11;
- review the Council's arrangements to re-engineer elements of its service delivery processes and rationalise activities;
- perform an overview of the Council's planned ICT shared service with Health and other local organisations to ensure that there are robust project management arrangements to identify and deliver shared objectives and efficiencies.

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 brief specification for each review outlining the scope, methodology and timing. These will be agreed with officers and presented to 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 – key contacts

Your main audit team is based in Bristol and Plymouth and are all Local Government 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
 0117 3057708
 barrie.morris@uk.gt.com

Barrie is the Council's Engagement Lead, bringing his extensive Local Government expertise to the Council. Barrie will be a key contact for the Chief Executive, the Director for Corporate Support, other Executive Directors and Committee / Cabinet members. Barrie is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Geraldine Daly (CPFA)
Senior Manager
 0117 3057741
 geri.n.daly@uk.gt.com

Geraldine is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.

Geraldine reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Audit Committee and Cabinet members.



Emma Dowler (ACCA)
Audit Executive
 0117 3057619
 emma.dowler@uk.gt.com

Reporting to Geraldine, Emma is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department.

Emma will be supported by a team of audit assistants



Ginette Beal (CPFA)
Performance Manager
 0117 3057623
 ginette.beal@uk.gt.com

Ginette is responsible for planning, management and delivery of all value for money work.

Ginette will provide feedback to the Council throughout all VfM reviews and she will report findings to Council management and Audit Committee members.

Engagement team – specialist support



Negat Sultan
IT Audit Manager
T 0161 247 5900
E negat.sultan@uk.gt.com

Negat is responsible for review of the Council's IT systems to complement the financial accounts process.



Bob Anderson
IFRS Specialist
T 020 7728 2245
E bob.anderson@uk.gt.com

Bob is responsible for the provision of specialist technical support to the audit team.

Bob will be used to provide support and advice to the Council throughout the year as it prepares its accounts for 2011/12.



Karen Smith
Advisory Specialist
T 0117 305 7778
E Karen.smith@uk.gt.com

Karen has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

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 your scale audit fee is calculated

The Audit Commission has published a scale fee for all authorities. This scale fee is based on the 2010/11 fee, which reflected our assessment of risk and complexity, reduced by 10%

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we tailor our work to reflect local circumstances. This may 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.

2011-12 audit fee

Your external audit fee for 2011/12 is £302,380 (£335,978 in 2010/11). This is the same as the indicative fee communicated to you in March 2011, and represents a 10% reduction on last year.

The fee will be subject to review and may be revised if significant new audit risks are identified during the audit or if we are unable to progress 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 the Director for Corporate Support. A summary of the audit fee is shown in the table below:

Table 2: 2011/12 audit fee

Audit Area	Planned Fee 2011/12	Actual fee 2010/11
Accounts, including WGA and VFM conclusion	£302,380	£335,978
Certification of claims and returns*	Est £50,000	£ 51,966*

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

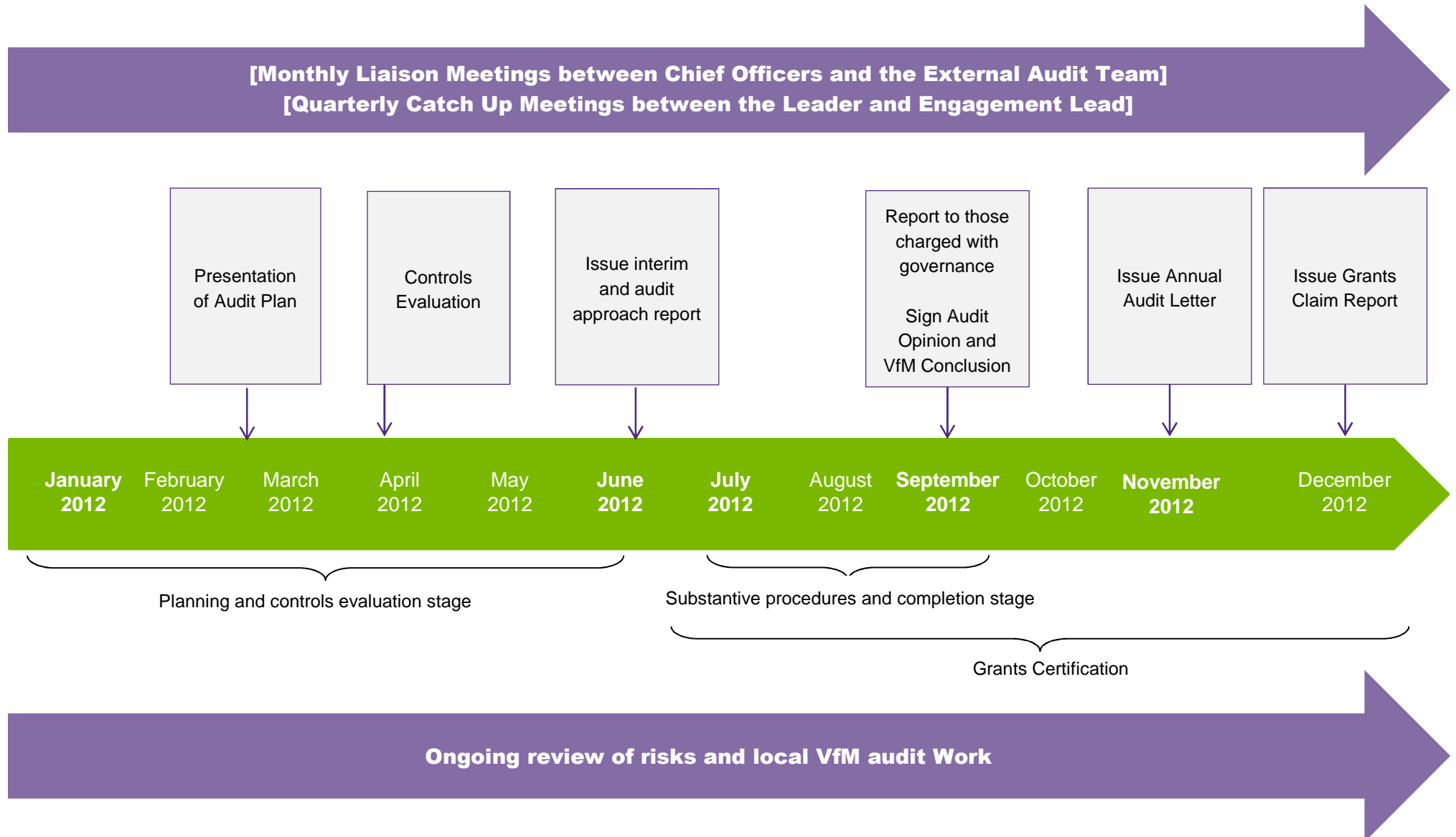
Outputs

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. No responsibility is taken by the 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 for the accounts and VfM audits Identify initial high risk areas and our planned response Confirm Plan with Audit Committee 	March 2012
Interim Report	<ul style="list-style-type: none"> Report the results of the control evaluation of our audit and its impact on our planned audit approach Confirm focus areas for the audit of the accounts based on updated risk assessment Provide certain disclosures to those charged with governance under auditing standards Confirm with Senior Officers and Audit Committee 	June 2012
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> Highlight key issues arising from the audit and the resolution of these Communication of adjusted and unadjusted audit differences Improvement recommendations resulting from audit procedures 	September 2012
Auditor's Reports	<ul style="list-style-type: none"> Report on Plymouth City Council's financial statements Report on Plymouth City Council's value for money conclusion 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Short summary of the key issues arising from our 2011/12 audit 	November 2012
Grant Claims Certification	<ul style="list-style-type: none"> Highlights key issues arising from our grants certification work Recommendations identified for improvement 	December 2012

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

Appendix B - Keeping you up to date

The collage features several Grant Thornton publications:

- Sustainable cities:** A vision of our future landscape, featuring an illustration of modern buildings and green spaces.
- Spending Review 2010 Headlines:** A report on the government's spending review, including a photo of a man in a suit.
- The Bribery Act 2010:** A report on the new legislation, featuring a photo of a man in a suit.
- Surviving the storm: how resilient are local authorities?:** A report on the challenges facing local authorities, including a 28% reduction in funding and a 28% reduction in staff costs.
- Asset management:** A report on the challenges of asset management, including a diagram of a building and a list of challenges.
- Is your audit committee effective?:** A report on the effectiveness of audit committees, including a diagram of a gear and a list of factors.
- Annual Governance Statement: adding real value?:** A report on the value of governance, including a diagram of a gear and a list of factors.



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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement.

The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP