

Audit plan

London Borough of Tower Hamlets

Audit 2011/12



Contents

- Introduction.....3
- Accounting statements and Whole of Government Accounts.....5
- Value for money.....9
- Key milestones and deadlines11
- The audit team12
- Independence and quality13
- Fees14
- Appendix 1 – Independence and objectivity16
- Appendix 2 – Basis for fee.....18
- Appendix 3 – Glossary19

Introduction

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

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements

Auditing standards require me to share my plan for the audit, including those areas viewed as highest risk. I have therefore set out the significant risks and the approach I will take for the audit of the 2011/12 financial statements in this plan.

Value for money

I will also assess the Authority's financial resilience and arrangements for securing economy, efficiency and effectiveness in the form of a value for money conclusion. I set out the areas where my work will be focused for the 2011/12 value for money conclusion.

Fees

The fee for the audit is £462,150 which is a reduction of 10 per cent from the previous year. The fee has not changed since it was originally communicated to the Council in March 2011.

Other matters

The plan also sets out:

- the planned timetable and outputs for 2011/12 audit work; and
- the audit team and the arrangements to ensure its independence and the quality of the service provided.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Audit risks**

Risk	Audit response
<p>Heritage assets</p> <p>The 2011/12 IFRS Code adopts the requirements of FRS 30 Heritage Assets for the first time. These are assets held by the Council with the intention of preserving them for future generations because of their cultural, environmental or historical associations. Typical examples in local government include mayoral regalia and paintings. The standard requires that where information on cost or value is available, heritage assets must be reported on the Council's balance sheet and accounted for in accordance with the Code and its disclosure requirements. There is a risk that due to the difficulty in identifying and valuing heritage assets, this change in accounting policy may not be implemented correctly.</p>	<p>I will complete additional work to assess whether the Council has put in place adequate arrangements to identify all potential heritage assets and has applied appropriate judgements with regard to their classification, valuation and disclosure.</p>
<p>ALMO pension liability</p> <p>The 2009/10 audit identified that the provision for the post-transfer service element of the ALMO pension liability was not accounted for in accordance with accounting standards. Whilst the error that has resulted in prior years from the Council's treatment of this item was not material, the value may increase as a result of changes in actuarial projections.</p>	<p>I will review the valuation and accounting treatment of the post-transfer service element of the ALMO pension liability.</p>
<p>Housing Revenue Accounts (HRA) reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. For the Council this will be through a one-off settlement payment from central government on or before 28 March 2012. This will adjust the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal amount of all PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform, there is risk that</p>	<p>I will carry out procedures to ensure HRA reform is accounted for correctly. Specifically, I will:</p> <ul style="list-style-type: none"> ■ agree settlement receipt to the amount specified in the Settlement Payments Determination 2012; ■ check that the settlement transaction has been accounted for in line with the requirements of CIPFA guidance;

Risk	Audit response
<p>the financial statements may be materially misstated.</p>	<ul style="list-style-type: none"> ■ agree details of loan redemptions to supporting documentation; and ■ check cash flow working papers to confirm that non-cash transactions associated with the loan redemptions are accounted for correctly.
<p>Accruals</p> <p>International Standards on Auditing (ISA 240 UK&I) presume an inherent risk in relation to revenue recognition for all audits. Given the pressures placed on council finances by the local government finance settlement, the risk of misstatement exceeds that of prior years particularly with regard to management accruals of expenditure.</p>	<p>I will identify and test management accruals. Specifically, I will:</p> <ul style="list-style-type: none"> ■ assess whether the method for making accruals is appropriate and has been consistently applied; ■ review the assumptions used; ■ test the effectiveness of management controls over the accruals; and ■ verify the accuracy of the accrual by reference to subsequent settlement.
<p>Allocation of transactions to financial reporting periods</p> <p>My grant certification work identified weaknesses in the Council's controls to ensure that transactions are allocated to the correct financial reporting period.</p>	<p>Officers are undertaking work to understand further the issue and the likely causes. I will review this work and I will undertake detailed testing over how the year end cut-off has been applied to transactions.</p>

Group accounts

I am responsible for the direction, supervision and performance of the group audit. I will contact the auditors of Tower Hamlets Homes as part of my audit procedures. Please discuss with me any concerns about me contacting component auditors.

Testing strategy

My audit involves:

- review and re-performance of the work of your internal auditors, especially to inform our understanding of the overall control environment;
- testing of the operation of controls, for example the controls over journals;
- reliance on the work of other auditors, including the work of KPMG as the auditors of Tower Hamlets Homes;
- reliance on the work of experts, including the Council's valuer and actuary; and
- substantive tests of detail of transactions and balances.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following risks that I will address through my work.

Table 2: **Value for Money Conclusion risks**

Risk	Audit response
<p>Financial resilience</p> <p>The Council has made significant changes to its medium term financial plan in response to the recession, Comprehensive Spending Review (CSR) and the resulting increased financial pressures.</p>	<p>I will carry out the following tasks:</p> <ul style="list-style-type: none">■ monitor progress in delivering identified savings in 2011/12; and■ review arrangements for challenging the value for money of services and progress in identifying savings for 2012/13. <p>I will also consider the adequacy and robustness of the</p>

Risk**Audit response**

Council's medium term financial strategy.

Governance

The Council's move to a mayoral system has resulted in changes to the Council's governance arrangements.

I will review the adequacy and the embeddedness of the Council's revised governance arrangements.

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Protecting the Public Purse fraud briefing	February – March 2012	Report and briefing to the Audit Committee
Opinion: controls and early substantive testing	December 2011 – April 2012	Annual governance report
Opinion: receipt of draft financial statements and supporting working papers	June 2012	N/a
Opinion: substantive testing	July – September 2012	Annual governance report
Value for money conclusion: review of arrangements	January - March 2012	Annual governance report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

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

Table 4: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Sally-Anne Eldridge Senior Audit Manager	s-eldridge@audit-commission.gov.uk 07815 954026	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Resources and the Interim Director of Finance.
Shona Milton Audit Manager	s-milton@audit-commission.gov.uk 07812 157709	Manages and coordinates the day to day delivery of the audit. Key point of contact for the Service Head, Corporate Finance and the finance team.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £462,150 as set out in my letter of 17 March 2011.

The audit fee

The Audit Commission has set a scale audit fee of £462,150 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with Corporate Director of Resources and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- further strengthen the quality review of the financial statements, Whole of Government Accounts submission and supporting working papers; and
- more consistently evidence the operation of controls.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 5: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	462,150	513,500	(51,350)
Certification of claims and returns	96,000	105,000	(9,000)
Non-audit work: Protecting the Public Purse fraud briefing	4,500	7,000	(2,500)
Total	562,650	625,500	(62,850)

Appendix 1 – Independence and objectivity

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

Table 6: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

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

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting statements on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies, aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

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

Commission (the)

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

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

