

# Audit plan

Slough Borough Council

Audit 2011/12



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# Introduction

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**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.**

I am pleased to present our Audit Plan. This includes our analysis of key risks (for the financial statements audit and the value for money conclusion) based on discussions with management and a review of your key documents; our audit strategy; and planned reporting timetable. Discussion of this plan with you ensures that we understand your concerns and you are clear on the intended scope of the audit.

## **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 Full Council and Audit Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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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.

## Assertions

International Standards of Auditing require auditors to undertake sufficient testing to be satisfied for all material classes of transactions and balances that the following assertions are met.

Occurrence	Transactions and events that have been recorded have occurred and relate to the Authority.	Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Completeness	All transactions and events that should have been recorded have been recorded.	Existence	Assets and liabilities exist.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.	Rights and obligations	The Authority holds or controls the rights to assets and liabilities are the obligations of the Authority.
Cut off	Transactions and events have been recorded in the correct accounting period.	Valuation and allocation	Assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

## 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. Materiality can be defined as: 'information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.'

## 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 you face, including assessing your own risk management arrangements;
- considering your financial performance;
- 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 your information systems.

## Identification of significant and specific 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: **Significant and specific risks**

Risk	Audit response
<p><b>Significant risks</b></p> <p><b>Resilience of the finance function</b></p> <p>I drew attention to the S.11 recommendation in the 2010/11 Annual Governance report which requires management to ensure that the Council's finance function has the capacity, capability and necessary resilience to operate effectively with established quality assurance arrangements to meet the Council's statutory reporting obligations.</p>	<p>My audit response to significant risks must include a review of the design and implementation of controls relevant to the significant risk as well as tests of detail. I will:</p> <ul style="list-style-type: none"><li>• work with your finance team to understand the pressures and difficulties experienced last year and to assist you respond to these and improve your closedown and</li></ul>

## Risk

I am aware that you have plans for addressing this in 2011/12; with further appointments being made to key posts and proposals for the production of a set of interim accounts at the end of December 2011.

However, until this work is complete and outcomes can be clearly demonstrated, the resilience of the finance function, in my view remains a significant risk for the coming year of audit.

## Audit response

quality assurance arrangements this year;

- review your plans for strengthening your finance function;
- consider your performance in completing your interim closedown of accounts and your response to any emerging issues;
- carry out early substantive testing based on the figures in your interim accounts which will enable me to provide early comment on the quality of your supporting working papers.

The Audit Commission is once again running a series of Accountant's workshops – members of your finance team are attending.

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### **Transactional services – continuity of service and access to accounting information**

Your transactional services are transferring to an external provider from the 2 April 2012. As from that date key figures in your financial accounts will be generated by an external organisation rather than being generated in house. There are a number of risks associated with the transfer of functions concerned with procedures not operating as designed.

My audit response to significant risks must include a review of the design and implementation of controls relevant to the significant risk as well as tests of detail. I will:

- review your plans and contract provisions;
- obtain assurances from management that transitional working arrangements incorporate sufficient safeguards and controls to mitigate all inherent risks; that the integrity of the 2010/11 data is preserved and that information flows to the financial statements are assured
- discuss audit requirements with management to ensure that my team have access to all accounting information necessary for the discharge of my audit responsibilities

Risk	Audit response
<p><b>Specific risks</b></p> <p><b>Property, Plant and Equipment – fixed asset register</b></p> <p>With the introduction of IFRS accounting in 2010/11, the number and complexity of adjustments to the capital accounts increased significantly and arrangements for updating the fixed asset register were unable to cope effectively with the increase in throughput and the complexity of entries</p> <p>Responsibility for maintenance of the fixed asset register is now fully a finance function and a new capital accountant has been appointed. Management is confident that arrangements are now working effectively. It is intended that the production of interim accounts will highlight residual problems that can be rectified during the final months of the year.</p>	<p>I will review management's assessment of the update and reconciliation of your fixed asset register when it is carried out at the end of December 2011 and will carry out audit tests designed to substantiate the material entries in the accounts.</p>
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that you may be unable to identify and account for all heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I will undertake testing to check that you have accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are not materially misstated.</p>
<p><b>Infra-structure assets</b></p> <p>CIPFA is currently consulting on alternative approaches to valuing infrastructure assets. To comply with potential new requirements you will need to develop robust highways infrastructure asset inventories and management plans to help confirm assets exist.</p>	<p>I will consider your plans for developing your highways infrastructure asset inventories and management plans and will undertake test checking as appropriate</p>

Risk	Audit response
<p><b>Schools</b></p> <p>In most local authorities schools are managed through a variety of governance arrangements. The difference is those arrangements have implications for the accounting treatment. There may be risk that the Authority has materially misstated its Property, Plant and Equipment due to the incorrect inclusion or omission of schools in its balance sheet.</p>	<p>I will review your consideration of schools and the IAS 16 recognition criteria and consistency with the accounting policy.</p>
<p><b>HRA reforms</b></p> <p>The Government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or 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 percentage of all PWLB debt held by the Authority.</p> <p>Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements could be materially misstated.</p>	<p>I will review your management oversight of HRA reforms and transactions required by you.</p> <p>I will carry out tests on the settlement payment or receipt.</p>
<p><b>Authorisation of journal entries</b></p> <p>In 2010/11 there was inadequate management check over the authenticity and integrity of journal entries to the general ledger which could result in errors or even the fraudulent manipulation of data.</p> <p>I understand that management has since acted to address this weakness but I nevertheless need to design audit procedures to confirm that these controls are in place and operating consistently</p>	<p>I will rely where possible on the work of Internal Audit to confirm that management checks are in place and operating effectively</p> <p>The nature of my substantive testing will be determined by the findings of IA.</p>



## Risk

## Audit response

### Reliance on Internal Audit

You have awarded a new Internal Audit contract effective from January 2012. Your outgoing internal audit provider completed the third quarter audit plan prior to the transfer of the contract and I plan as far as possible seek to place reliance on this work. The final quarter's audit plan will be re-assessed when the new provider is in place. Changing the internal audit provider part way through the financial year raises a number of risks for my audit:

- work planned in quarter three may not be completed or delayed;
- I will be able to rely on the work of internal auditor only for the first part of the year and arrangements for the provision of top up assurance over the remaining months of the year will need to be negotiated with the incoming auditor; otherwise I will need to design additional audit procedures;
- there may be a lack of continuity in following through control issues with management.

My audit team has been working alongside internal audit staff during the period November/December 2011; attending site visits jointly and integrating our systems testing. My team have re-performed internal audit testing where I intend to place reliance on a real time basis so that I was able to conclude a large part of my work prior to the departure of the outgoing auditors.

I have agreed appropriate exit protocols with the Head of Internal Audit.

I will discuss and agree external audit requirements with the incoming Head of Internal Audit.

## Testing strategy

I have planned to rely on the effective operation of key controls within your financial systems that contribute to the production of the annual statement of accounts. My work will involve documenting the way your financial systems operate and testing the effectiveness of controls throughout the year. I will also review your control environment in which the key financial systems operate and assess your IT control environment.

Where appropriate, my audit will:

- review and re-perform the work of your internal auditors;
- rely on the work of other auditors in accordance with international standards of auditing;
- evaluate and rely on the work of experts you engage and the auditor’s own experts; and
- involve substantive tests of detail of transactions and amounts;

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.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Controls assurance – from quarter 3 audit programme and follow up of previous audit recommendations	General ledger Housing Benefit Social Services Education Imprests Investments and loans Fixed assets Accounts Receivable and		Pension fund – actuarial assumptions	Assess resilience of finance function Assess transitional arrangements on transactional services Provisions and reserves Revaluation of assets and fixed asset reconciliations

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
	Discussions with incoming Head of Internal Audit	NNDR (partial) IT risk assessment			All control account reconciliations complete at month 9 Internal recharges
Final visit	Annual Governance Statement		Pensions assets and liabilities –auditor to Windsor and Maidenhead BC	Pensions liabilities and assets – Barnett Waddingham and our own consulting actuary Valuation of property, plant and equipment – Slough external valuers  I will also use the work of our expert valuers to assess the reasonableness of your own valuation.	All material accounts balances and amounts Year-end feeder system reconciliations

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

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## **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 your arrangements for:

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

### **Identification of specific risks**

To form my view on the Authority's arrangements, I plan a programme of VFM audit work based on my risk assessment. This includes capturing what I know already from last year's work my continuing reviews of minutes and discussions with officers. I have identified the following specific risks, including a number of sector specific risks that along with other local authorities you face in the coming year (for example government proposals for business rate reforms, localising support for council tax from 2013/14 and the new public services transparency framework) that I will address through my work.

Table 3: **Specific risks**

Risk	Audit response	Separate audit output?
<p><b>Procurement – S.11 recommendation</b></p> <p>I drew attention to the S.11 recommendation in the 2010/11 Annual Governance report which required management to overhaul your procurement arrangements to ensure that these reflected best procurement practice; ensure that operational procedures are consistent with financial regulations and ensure that revised procurement practice is complied with and operates effectively in future.</p> <p>This remains a risk until management is able to demonstrate that proper procurement arrangements are in place and operating effectively</p>	<p>I will carry out a local risk based review of your procurement arrangements to assess your progress and obtain assurances that operational arrangements are in place and operating effectively.</p> <p>Timing of the review to be agreed</p>	<p>Yes</p>
<p><b>Resilience of finance function – S.11 recommendation</b></p> <p>I drew attention to the S.11 recommendation in the 2010/11 Annual Governance report which required management to ensure that the Council's finance function has the capacity, capability and necessary resilience to operate effectively with established quality assurance arrangements to meet the Council's statutory reporting obligations in the future.</p>	<p>I will consider the Council's progress as part of my audit of the Council's statements accounts (please refer to significant opinion risks in table 1)</p>	<p>No</p>
<p><b>Financial resilience</b></p> <p>The economic downturn, compounded by the public sector deficit, continues to have a significant impact on public finances and you will need to remain resilient to the challenges that this presents. The over-riding risk is that financial balance is not sustainable.</p>	<p>I will monitor the impact of financial pressures during the year including delivery of planned cost improvements; through discussions with officers and review of financial reports.</p> <p>I will review the development of your medium</p>	<p>No</p>

Risk	Audit response	Separate audit output?
<p>Financial acumen within service departments needs to be developed to ensure that all budget holders have the necessary financial skills that they need to manage their budgets effectively.</p> <p>I have identified a number of areas of financial risk:</p> <ul style="list-style-type: none"> <li>■ school balances</li> <li>■ prioritisation of capital resources</li> <li>■ income collection and debt recovery</li> <li>■ prudential borrowing and funding vehicles</li> </ul>	<p>term financial plans and your progress against corporate priorities and objectives in the light of changing circumstances.</p> <p>I will seek assurances that plans are in place to enhance financial skills at service level and that these are being delivered.</p> <p>I will review how management demonstrate that financial risks are being addressed.</p>	
<p><b>Managing organisational change</b></p> <p>In common with many other councils, you face significant challenges and to be best placed to tackle these effectively you need to achieve organisational stability swiftly, flexibly and without creating comprehensive disruption.</p> <p>You need to closely monitor the delivery of your plans for organisational change ensuring that risks are identified and managed to ensure business continuity; that external consultancy costs are effectively controlled and that realistic timescales for the implementation of new structures and the appointment of key staff are set and adhered to.</p> <p>The risk to you in not managing this process effectively is the potential for slippage against corporate priorities and your inability to contain cost pressures.</p>	<p>I will seek assurances from management that:</p> <ul style="list-style-type: none"> <li>■ realistic timescales for the implementation of new structures are in place;</li> <li>■ organisational reforms are being progressed effectively and to plan and in a way that secures value for money;</li> <li>■ transitional costs including the cost of consultants and interim staff are transparent and reasonable, and</li> <li>■ disruption is minimised.</li> </ul>	No

Risk	Audit response	Separate audit output?
<p><b>Transactional services – client side arrangements</b></p> <p>You will be dependent on an external service provider from the 1 April 2012. I am satisfied that you have managed the procurement and award of this contract in an effective manner and that the new arrangements promise significant benefits.</p> <p>Moving forward into the implementation stage of the contract you will need to be satisfied that performance under the contract meets expectation and that benefits are delivered</p>	<p>I will seek assurances from management that client management arrangements are in place and operating effectively.</p>	<p>No</p>
<p><b>Control environment</b></p> <p>You reported significant governance issues in your 2010/11 annual governance statement. You will need to ensure that these issues are addressed and your control environment is not compromised by the significant challenges that you face.</p> <p>There is a risk that governance and accountability could be affected if staff continuity is lost and service reforms and efficiency measures are not underpinned by a strong framework of internal control.</p>	<p>I will place reliance on the work of Internal Audit and on your corporate risk management arrangements to demonstrate improvements in governance arrangements and your response to emerging issues</p>	<p>No</p>
<p><b>Delivering outcomes and your corporate priorities</b></p> <p>You continue to explore opportunities for more efficient ways of delivering your services as you prioritise your resources within tighter budgets.</p> <p>The measure of your success is being able to demonstrate that your plans are delivering tangible outcomes.</p>	<p>I will monitor your performance in terms of delivery of your corporate plans through discussion with management and review of your corporate performance reports</p> <p>I will utilise the Audit Commission VFM profile and key financial ratios to identify areas for discussion with management</p>	<p>No</p>

# Key milestones and deadlines

You are 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 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	1 <sup>st</sup> visit – Dec 2011/January 2012 2 <sup>nd</sup> visit – March/ April 2012	Supplementary audit plan
Procurement report	April/May	Report
Opinion: receipt of accounts and supporting working papers	1 July 2012	Annual Governance report
Opinion: substantive testing	July/August 2012	Annual Governance report
Annual Governance Report to Audit Committee	September 2012 – date to be confirmed	
Adoption of annual accounts by the full Council	September 2012- date to be confirmed	Annual Governance Report
Issue opinion; report on the WGA 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

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

Table 5: **Audit team**

Name	Contact details	Responsibilities
Chris Westwood District Auditor	c-westwood@audit-commission.gov.uk 0844 798 1791	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Alastair Rankine Audit Manager	a-rankine@audit-commission.gov.uk 0844 798 6431	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

# Independence and quality

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## 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 Mike Haworth-Maden; lead director for Local Government, Audit Practice, Audit Commission, 1<sup>st</sup> Floor, Millbank Tower, Millbank, London SW1P 4HQ (m-haworth-maden@audit-commission.gov.uk).

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

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**The fee for the audit is £281,600 as set out in my letter of 18 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £309,150 which represents a 23% per cent reduction on the audit fee for 2010/11 (including additional fee of £33,760).

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 set the fee at £281,600, 8.9 per cent below the scale fee because I anticipated that improvements to your control environment would enable me to place greater reliance on the controls within your key financial systems.

## 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 the Director of Finance 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. At this stage, there are no specific actions identified that you could take.

## 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 6: Fees

	2011/12 proposed	2010/11 actual*	Variance
Audit	£281,600	£377,260	(£95,660)
Certification of claims and returns	£ 46,500	£ 45,867	£ 633
Non-audit work			
<b>Total</b>	<b>£328,100</b>	<b>£423,127</b>	<b>(£95,027)</b>

\* excluding fee relating to local elector objection

# Appendix 1 – Independence and objectivity

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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 7: **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>	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.

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

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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;
  - you will inform me of any significant developments impacting on the audit
- 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 the agreed date;
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- 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

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## **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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**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.

