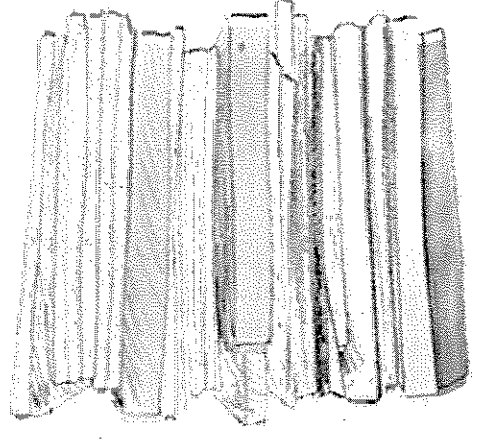




South Derbyshire District Council

Audit Plan 2011 /12

February 2012



An overview of your 2011/12 Audit Plan

This is our audit plan for the financial year 2011/12 for South Derbyshire District Council (the Council). It documents 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 April 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 for 2011/12 to reflect the issues identified, particularly around property, plant and equipment.</p>	<p>See Accounts audit, p.2</p>
<p>The new approach to local Value for Money audit work introduced by the Audit Commission in 2010/11 continues to be applicable for 2011/12. Our value for money conclusion will therefore be based on the two reporting criteria specified by the Audit Commission (financial resilience and economy, efficiency and effectiveness)</p>	<p>See Value for money audit, p.7</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. In particular, this will include input from our IT audit specialists in assessing the new Agresso system.</p>	<p>See Engagement team, p.9</p>
<p>We have used the published 2011/12 Audit Commission scale of fee for the Council as the basis for our proposed fee, increased to reflect implementation work on the new general ledger system, effective from 1 April 2011, and the increased work required to address the issues arising from our 2010/11 audit, particularly relating to property, plant and equipment.</p>	<p>See Audit fee, p.11</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 our Annual Audit Letter.</p>	<p>See Outputs and Timeline, p.12 and 13</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 for 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 Council's 2011/12 statement of accounts. 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
- 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
- whether the Annual Governance Statement 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.

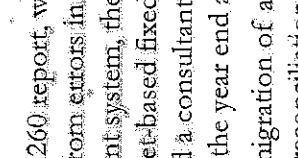
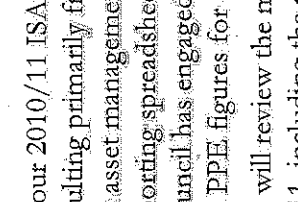

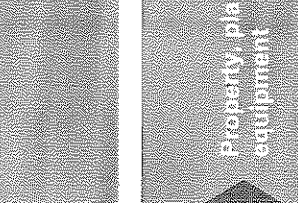


Accounts audit - risk assessment

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.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
 <p>Accounting for fixed assets</p>	 <p>Property, plant and equipment (PPE)</p>	<ul style="list-style-type: none"> In our 2010/11 ISA260 report, we reported adjusted misstatements totalling £4.4million resulting primarily from errors in the accounting for PPE. In response to concerns about the asset management system, the Council has taken the decision to introduce a financial reporting spreadsheet-based fixed asset register for financial reporting purposes. The Council has engaged a consultant to develop the spreadsheet, which will be used to produce the PPE figures for the year end accounts. We will review the migration of asset balances to the new fixed asset register as at 1 April 2011, including the reconciliation to the signed 2010/11 accounts. We will test the accuracy of the calculations performed by the spreadsheet and review the results of the Council's 'dummy' close at 31 December 2011, during our interim visit, to assess the accuracy of the accounting entries produced.
 <p>Accounting for heritage assets</p>	 <p>Property, plant and equipment</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 financial statements. To assess the impact of this new requirement, the Council has performed a review of its asset base and has not identified any heritage assets. We will review the Council's working papers, including a review for potential heritage assets, to gain assurance that the Council's conclusion is appropriate.

Accounts audit - risk assessment

Table 1: Accounting risks and planned audit response (cont.)

Key audit risk	Audit areas affected	Audit approach
<p>Resilience of the finance team</p> <p>All areas of the financial statements</p>		<ul style="list-style-type: none"> In 2010/11 the accounts were approved by the Council, and the audit opinion issued, after the 30 September deadline. As stated in our Annual Audit Letter 2010/11, following the transfer of financial reporting arrangements to Northgate the capacity of the finance team was reduced, which contributed to significant errors and omissions being made in the statement of accounts and delayed the completion of the accounts and audit process for 2010/11. The Council has subsequently taken action to bring the finance function back in-house and appointed a new Chief Accountant. We will continue to work proactively with the Council and its officers to achieve accurate and timely financial reporting. However, the transfer of the function and change in Chief Accountant increases the level of risk associated with the production of accurate and timely accounts.
<p>Financial performance pressures</p> <p>All areas of the financial statements</p>		<ul style="list-style-type: none"> The Council faces significant financial challenges in 2011/12 and beyond, as it balances serving the needs of local population against reduced funding from central government. We will review the Council's financial performance for the year against its agreed budget and monitor performance through discussions with officers and review of minutes. We will consider the Council's use of reserves in the year and review the medium term financial plan to gain assurance over the Council's budgeted future performance.
<p>Implementation of new general ledger system</p> <p>All areas of the financial statements</p>		<ul style="list-style-type: none"> The Council has implemented a new general ledger system with effect from 1 April 2011. We will review the data migration process and document the IT controls over the new ledger system. We will review the work of internal audit in this area to minimise duplication of work.
<p>Follow up of 2010/11 findings</p> <p>All areas of the financial statements</p>		<ul style="list-style-type: none"> We will follow up the Council's progress in implementing our agreed findings from last year's audit and will report our findings to the Audit Sub-Committee.

Our Approach

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

Our approach will be to report all findings to officers so that the Council can secure improvements, where necessary. We report only those findings that represent a control weakness to the Audit Sub-Committee and make formal recommendations accordingly.

In all cases, we invest time with officers 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 of 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
- Testing the operating effectiveness of selected controls
- Assessing internal audit against the CIPFA Code of Practice and reviewing reports issued in the year

Substantive procedures

- Reviewing material disclosure issues in the financial statements
- Performing analytical review
- Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate

Completion

- Performing an 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 ISA260 report

Accounts audit - other issues

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 arrangements, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out our work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a certification instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission, we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commission's 'Work programme and scales of fees 2011/12.'

We will report in full to the Council upon conclusion of our certification work.

National Fraud Initiative (NFI)

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

Annual Governance Statement and External Reporting

As part of our work on the accounts audit, we will review the Annual Governance Statement 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 those areas where there is scope to improve reporting, to support the Council's continual improvement in governance reporting.

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
- 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

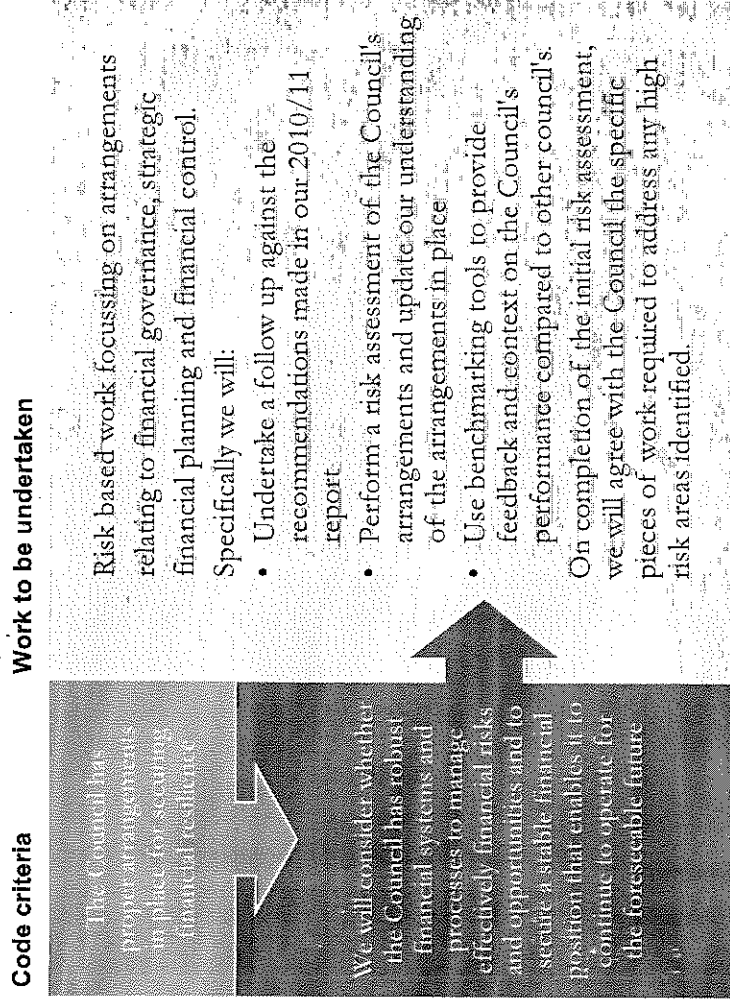
The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2011/12 VfM conclusion

The VfM 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:



Value for money audit (cont.)

Code criteria

The Council has properly implemented arrangements for managing its financial resources to ensure economy, efficiency and effectiveness

Work to be undertaken

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

Specifically we will:

- Undertake a follow up of recommendations made in the 2010/11 report
- Undertake a risk assessment of the Council's arrangements to update our understanding.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any high risk areas identified.

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

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 the Audit Sub-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 Birmingham and its members are all public sector specialists. However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.

**Kyla Bellingall (FCCA)
Engagement Lead**
T 0121 232 5359
E kyla.bellingall@uk.gt.com

- Kyla is the Council's Engagement Lead, bringing her extensive local authority expertise to the Council. Kyla will be a key contact for the Chief Executive, the Chief Finance Officer, other senior Council officers and the Audit Sub-Committee.
- Kyla is responsible for the overall delivery of the audit including the quality of output, signing the audit reports and Value for Money conclusion.

**Nicola Coombe (CPFA)
Manager**
T 0121 232 5206
E nicola.coombe@uk.gt.com

- Nicola is responsible for the audit strategy, planning and liaising with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.
- Nicola reviews the quality of audit outputs and ensures the accuracy of our reporting prior to presenting plans and reports to the Council's officers and members.

**Kate Taylor (ACA)
Assistant Manager**
T 0121 232 5208
E kate.l.taylor@uk.gt.com

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

Engagement team - key contacts (cont.)

A key objective of our high-quality audit and assurance service is to identify where improvements can be made to the Council's governance processes, its assurance framework and performance management arrangements, to help deliver value for money and promote best practice.

Ian Barber
Performance Specialist Senior Manager
T 0121 232 5357
E ian.m.barber@uk.gt.com

- Ian is our national Value for Money lead and will oversee and provide support on the Value for Money element of the audit.

Negat Sultan
IT Senior Manager
T 0116 257 5590
E negat.sultan@uk.gt.com

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

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act, in accordance with the Code of Audit Practice 2010.

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 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. Your scale fee for 2011/12 is £102,600.

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 £115,500 (£108,000 in 2010/11). In our indicative fee letter of April 2011, we communicated a fee of £108,000 which was £5,400 above scale to reflect the additional audit work required on the implementation of the new general ledger system. We have subsequently revised our fee in response to the accounting risk regarding PPE identified on page 3, to reflect the additional work we will perform to gain assurance over the new spreadsheet-based fixed asset register. This has been discussed with the Chief Finance Officer.

The fee will be subject to continuous 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 Chief Finance Officer.

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	£ 83,000	£ 75,500
Corporate outsourcing	-	£ 7,500
Additional fixed assets work	£ 7,500	-
VFM conclusion	£ 25,000	£ 25,000
Total audit fee	£ 115,500	£ 108,000
Audit overruns	-	£ 18,400
Certification of claims and returns*	£ 59,000*	£ 59,179*

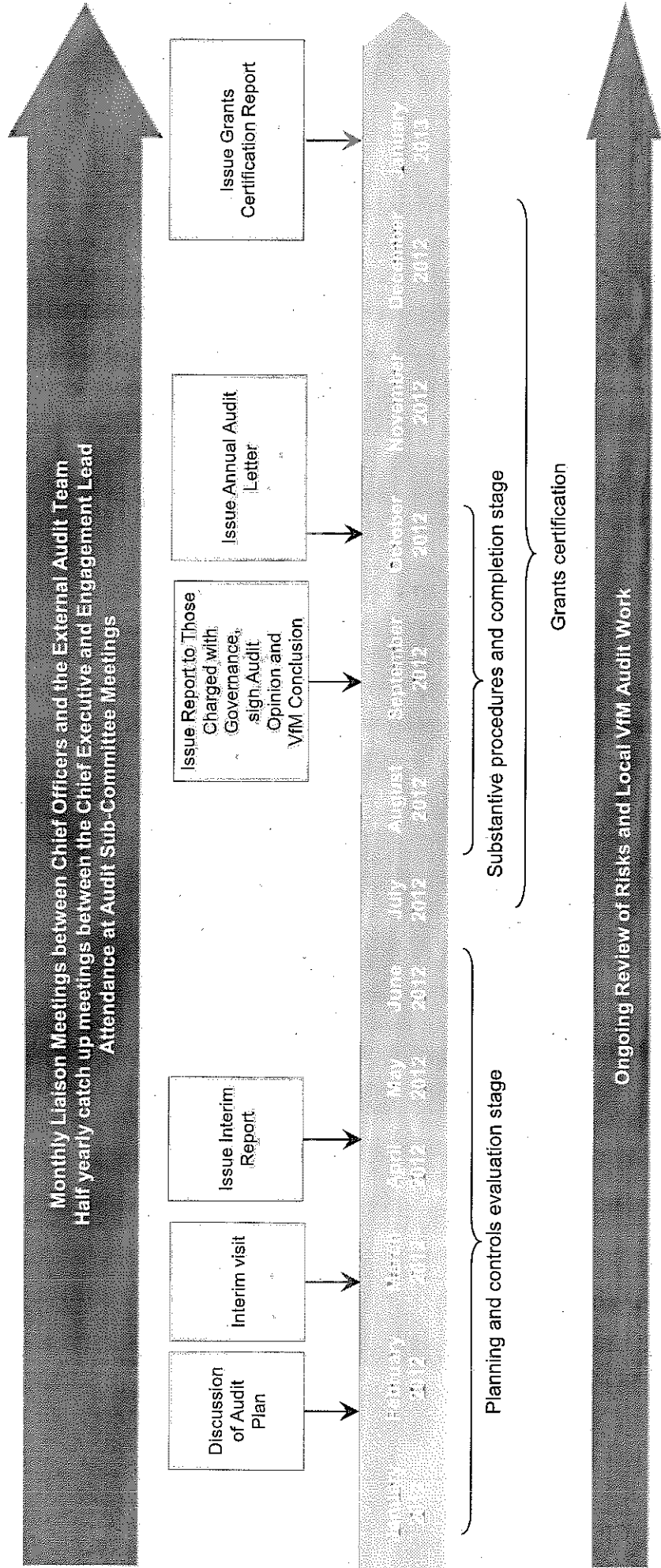
* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates. The fee for 2010/10 is currently being finalised following completion of the certification of the Housing and Council Tax Benefit Subsidy claim.

Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Sub-Committee. Reports are addressed to the Audit Sub-Committee and officers 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 our audit approach for the accounts and VfM audits Identify the initial high risk areas and our planned audit response Confirm our Audit Plan with the Audit Sub-Committee 	February 2012
Interim Report	<ul style="list-style-type: none"> Report the results of the control evaluation phase of our audit and its impact on our planned audit approach Confirm focus areas for the audit of the accounts based on our updated risk assessment Provide certain disclosures to those charged with governance under auditing standards 	April 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 the matters Communicate adjusted and unadjusted audit differences Make recommendations for improvement 	September 2012
Auditor's Reports	<ul style="list-style-type: none"> Report on South Derbyshire District Council's financial statements Report on South Derbyshire District Council's VfM conclusion 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Short summary of the key issues arising from our 2011/12 audit 	October 2012
Grants Claim Certification	<ul style="list-style-type: none"> Highlight the key issues arising from our grants certification work Make recommendations for improvement 	January 2013

Timeline



Appendices

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 Audit Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Audit 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 Sub-Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Audit 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 Audit Commission or Audit Commission work without first consulting the Audit Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven 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 Audit Commission's policy on gifts, hospitality and entertainment.



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