

Audit Plan

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# Audit Plan

**Harpenden Town Council**

**Audit 2008/09**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited;
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

#### Document Control

Author Author

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#### Status of our reports

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.

#### Copies of this report

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## Introduction

- 1 This plan sets out the audit work your audit team proposes to undertake in relation to the 2008/09 accounts. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.

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## Responsibilities

- 2 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 every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998; and
  - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the annual governance statement); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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## Work under the Code of Audit Practice

### Financial statements

- 6 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 7 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the audited body as at 31 March 2009 and its income and expenditure for the year.
- 8 We are also required to review 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 Annual Governance Statement is misleading or inconsistent with our knowledge of the authority.

### Value for money conclusion

- 9 The Code requires us to issue a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 10 In meeting this responsibility, we will review evidence that is relevant to the audited body's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 11 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

## Assessing risks

- 12 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities, and reflecting this in the audit fees.
- 13 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Town Council with reference to:
- our cumulative knowledge of the Town Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work; and
  - interviews with Town Council officers;
- 14 Paragraphs 15 - 17 set out details of those risks that we are aware of that at this stage are likely to impact on our audit.

### **Compliance with Statement of Recommended Practice**

- 15 The 2007 Statement of Recommended Practice introduced significant changes to the financial reporting requirements, in particular the requirement to present and account for financial instruments in accordance with FRS 25, 26 and 29. Significant changes were required to the draft accounts to ensure these requirements were met. This will remain a risk area for 2008/09.

### **Valuation of Land & Buildings**

- 16 During the course of 2008/09, significant falls in the value of land and buildings have been seen because of the global economic downturn. During the course of our audit we will assess the steps taken by Harpenden Town Council to ensure that the value of land and buildings carried in the balance sheet are appropriate, and that any impairments arising during 2008/09 have been accounted for in accordance with the Statement of Recommended Practice.

### **Value for Money Conclusion**

- 17 The Council's 2007/08 value for money conclusion was unqualified, and no specific risks have been identified in relation to our 2008/09 value for money conclusion.

## Fees

- 18 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 19 The total indicative fee for the audit work for 2008/09 is £9,300. In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - internal audit undertakes appropriate work on all material financial systems; and
  - good quality working papers and records are provided to support the financial statements.

Further details of our assumptions are outlined in Appendix 1.

**Table 1 Audit fee**

Audit area	Planned fee 2008/09	Planned/Actual fee 2007/08 (£)	Page
Financial Statements	8,300	8,000	6
Use of resources	1,300	1,300	6
Total audit fee	9,300	9,300	

## Process for agreeing any changes in audit fees

- 20 As set out in paragraph 2, the initial risk assessment may change as our audit progresses. Where this is the case, we will discuss this in the first instance with the Town Clerk. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

## The audit team

- 21 The key members of the audit team for the 2008/09 audit are shown in the table below.

**Table 2     Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Mark Hodgson District Auditor	m-hodgson@audit-commission.gov.uk 0844 798 5824	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion and liaison with the Finance and Policy committee.
Steve Bladen Audit Manager	s-bladen@audit-commission.gov.uk 07815 879539	Manages and coordinates the different elements of the audit work. Key point of contact for the Town Clerk.
Tommy Hyun Team Leader	t-hyun@audit-commission.gov.uk	Responsible for the delivery of the audit work and key point of contact on site during the audit.

## Quality of service

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact your District Auditor in the first instance. Alternatively you may wish to contact the Eastern Sub-Regional (Acting) Head of Operations, Andy Perrin. Andy's email address is a-perrin@audit-commission.gov.uk.

- 22 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*' which is available from the Commission's website or on request.

## Planned outputs

- 23 Reports will be discussed and agreed with the appropriate officers before being issued to the Finance and Policy committee.

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**Table 3**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	June 2009
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Annual audit letter	November 2009

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## Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the audited body with reference to:
  - our cumulative knowledge of the audited body;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with audited body's officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

### Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements.
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators;  
or
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 The fee will be charged in one instalment following the issue of the Audit Opinion.

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## Appendix 2 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 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.
- 3 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).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 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; and
  - 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.
- 6 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 Finance and Policy committee. The auditor reserves the right, however, to communicate directly with the audited body on matters which are considered to be of sufficient importance.
- 7 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.
- 8 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 (ie 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 District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor 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 District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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