

Audit plan

6b

Shropshire and Wrekin Fire and Rescue Authority

Audit 2011/12



Contents

Introduction.....	3
Accounting statements and Whole of Government Accounts.....	4
Value for money.....	9
Key milestones and deadlines	10
The audit team	11
Independence and quality	12
Fees	13
Appendix 1 – Independence and objectivity	15
Appendix 2 – Basis for fee.....	17
Appendix 3 – Glossary	18

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 and Performance Management Committee, as those charged with governance, of their responsibilities.

Background

I have previously commented that the Authority continues to face challenges around its current and future funding. Finding the required savings has been a big challenge for the Authority which it has successfully achieved whilst maintaining performance linked to strategic priorities, minimising redundancies and at the same time continuing to deliver a highly performing service. My 2010/11 Annual Audit Letter also highlighted a number of other challenges faced by the Authority, such as the increased use of joint arrangements for delivering services (both back office and public facing) and an increased level of national initiatives where compliance will have to be demonstrated. These have been taken into account in compiling the 2011/12 Audit Plan.

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 in order 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.

This plan reports the risks I have identified at the time of reporting. If material risks change or new ones are identified that impact upon my proposed audit plan I will report them separately to the Audit and Performance Management Committee.

Identification of significant 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 risks**

Risk	Audit response
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Authority is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the complex accounting transactions relating to the completion of the St Michael Street renovations.</p>	<p>I will:</p> <ul style="list-style-type: none">■ review the controls over establishing estimates, including the arrangements for instructing your valuer and controls over information provided to the valuer;■ undertake work with a review to placing reliance on the work of the valuer;■ ensure that the accounting transactions relating to the completion of the project are correctly disclosed in the financial statements and within the fixed asset register; and■ undertake tests of detail on valuations and associated depreciation calculations.

Identification of specific risks

My work identified some other risks which I do not consider to be significant, but will undertake specific testing in order to ensure that these are not a risk for the opinion. These are set out below.

Table 2: **Specific risks**

Risk	Audit response
<p>Financial reporting – The Authority has planned for a reduction in income over the next five years, however, the plans for expenditure are not aligned with the Authority able to make savings in the current and following year which support planned overspends in later years. Overall the medium term financial plan is in balance. However, there is a risk relating to the reporting and disclosure of this.</p>	<p>I will consider the level of accruals, provisions and reserves which are created to support the future financial plans and ensure that the in year prime statements accurately reflect the financial position of the Authority.</p>
<p>Accounting for the top-up grant – The accounting treatment for the top-up grant and the additional contribution to the Pension Fund account is specified by the Code, although this is open to interpretation.</p>	<p>I will:</p> <ul style="list-style-type: none"> ■ review the accounting treatment of the top-up grant to ensure that it is in line with the Code; and ■ undertake tests of detail on amounts payable to the Authority.
<p>Disclosure – Last year the Authority presented financial statements which complied with IFRS for the first time. As a result of this there was a considerable level of additional (prior year) disclosure required. Reporting for 2011/12, the Authority is not required to make the same level of disclosures and has agreed to take this opportunity to streamline the financial statements into a meaningful, more readable document for the public. As a result of this there are risks around the disclosure requirements meeting the minimum standard.</p>	<p>I will work closely with the Authority to review the financial statements to identify any areas of omission or non-compliance with the Code early and continue to monitor against any technical information released before the opinion is given.</p>

Testing strategy

My audit involves:

- walking a transaction through each material financial system to confirm my understanding;
- testing of the operation of controls;
- review and re-performance of work of your internal auditors where appropriate;
- reliance on the work of other auditors for your pension disclosures;
- reliance on the work of experts for valuations of your assets and pension funds; and
- substantive tests of detailed 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 3: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Review any reports available for overall control environment	General Ledger (SAMIS). Pensions (provided by Shropshire Council). Brought forward assurance for: <ul style="list-style-type: none"> ■ Sales Ledger; ■ Purchase Ledger; and ■ Payroll. 	N/A	N/A	Material grant income. Precept income. Fixed assets (at least to month 9). Leases. Other areas for example related party disclosures, injury benefit scheme, and some pension disclosures.

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Final visit	Annual Governance Statement and Head of Internal Audit Opinion	General Ledger year end controls. Other year end processes and reconciliations.	Pensions assets and liabilities – reliance on the Auditor of Shropshire Council for assurance over information passed to the actuary.	Pensions liabilities and assets – verification from the actuary on asset values. Valuation of property, plant and equipment – reliance placed Shropshire Council’s valuer.	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

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 significant risks

I have considered the risks that are relevant to my value for money conclusion. I have not identified any significant risks which require specific audit work to be completed. The two criteria will be considered as part of my overall risk assessment.

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012 (although has agreed to provide them earlier for audit. I aim to complete my work and issue my opinion and value for money conclusion by 6 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January – March 2012	Statement of Audit Progress to the Audit & Governance Committee March 2012.
Opinion: receipt of accounts and supporting working papers	18 June 2012	N/A
Opinion: substantive testing	June/July 2012	Annual Governance Report to the Audit & Governance Committee September 2012.
Value for money	February – August 2012	Summary of findings in Annual Governance Report to the Audit & Governance Committee September 2012.
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 5: **Audit team**

Name	Contact details	Responsibilities
Grant Patterson District Auditor	g-patterson@audit-commission.gov.uk 0844 798 7816	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Fire Officer.
Emily Mayne Audit Manager	e-mayne@audit-commission.gov.uk 07976 315713	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Nigel Meredith Team Leader	n-meredith@audit-commission.gov.uk 0844 798 4906	Manages the day to day delivery of the audit. Will have a strong presence at the audit and be the initial point of contact for queries.

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 £63,480, as set out in my letter of 21 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £63,480 which represents an eight 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 [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. I have identified the following actions that you could take. The only action I can identify is for the Authority to improve the quality of working papers for complex transactions and transactions which require information from other departments.

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	£63,480	£69,000	£5,520
Certification of claims and returns	£0	£0	£0
Non-audit work	£0	£0	£0
Total	£63,480	£69,000	£5,520

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 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

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.
 - internal controls are operating effectively; and
 - 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 as set out in the Annual Plan on systems that provide material figures in the accounting 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 18 June 2012 as agreed;
 - 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

