



Haringey Council

Agenda Item

Audit Committee

On 3 February 2011

Report title: **External Audit Plan 2010/11**

Report of: **Director of Corporate Resources**

Signed: *J. Power 25/1/11*

Ward(s) affected: All

Report for: Decision

1. Purpose

1.1 To inform the Committee of the external audit plan for 2010/11 proposed by Grant Thornton and to agree the audit fees.

2. Recommendation

2.1 That the Committee approves the proposed audit plan and fees for 2010/11.

Report authorised by: Kevin Bartle – Lead Finance Officer

Contact officer: Kevin Bartle - Head of Corporate Finance
Telephone 020 8489 5972

3. Executive Summary

3.1 The proposed audit plan for 2010/11 sets out the work that Grant Thornton, the Council's external auditors are proposing to carry out in discharging their

responsibilities to provide an opinion on the Council's financial statements and to be able to provide an opinion on the value for money arrangements the Council has in place.

3.2 The plan also includes the proposed fees for the audit of £505k and an estimate of the fees for grant certification of £90k which are equal to the indicative figures provided originally to the Audit Committee in March 2010.

3.3 The proposed plan has been discussed with senior officers of the Council and it is recommended for approval.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

5.1 None.

6. Background

6.1 The content of the work in the external audit plan is proposed by Grant Thornton on a risk based approach to audit planning and reflects national and local risk issues. The outputs from this are contained on page 13 of their plan and include appropriate reporting back to Members on completion of the work.

6.2 The key risk areas highlighted in the proposed audit plan include:

- Accounting under IFRS
- Financial performance pressures
- Revaluation of fixed assets
- Use of estimates and judgements
- Valuation of Council dwellings
- Alexandra Park and Palace Trust – consideration of group accounts consolidation

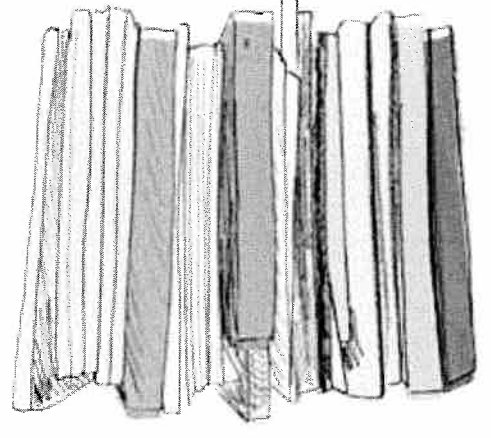
6.3 The fees charged by Grant Thornton are for the work they carry out for the statutory audit, Value for Money assessment, review the Annual Governance Statement, the Whole of Government Accounts consolidation pack, the certification of grants and claims and review of the work the Council undertakes on the National Fraud Initiative.

7. Recommendation

7.1 That the Committee approves the proposed audit plan and fees for 2010/11.

London Borough of Haringey
Audit plan 2010-11

January 2011



An overview of your 2010-11 Audit Plan

This is our audit plan for the financial year 2010-11 for the London Borough of Haringey (the Council). It sets out the work that we will deliver 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.

<p>We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant change and challenge, the underlying level of risk in relation to the audit would not be significantly different from that identified for 2009-10. Following the completion of the 2009-10 audit we have updated our accounts audit risk assessment.</p>	<p>See Accounts audit</p>
<p>In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010-11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.</p>	<p>See Value for money audit</p>
<p>Our main audit team includes a new assistant manager to lead the final accounts process. 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.</p>	<p>See Engagement team</p>
<p>We have used the Audit Commission scale of fees work programme for 2010-11 to calculate your proposed audit fee. Although this fee remains unchanged from the agreed indicative of March 2010 the Commission has recently confirmed that the Council will receive a further rebate.</p>	<p>See Audit fee</p>
<p>You will receive a number of reports and other outputs from us throughout the year which will provide you with the detailed conclusions of our work, culminating in the issue of our Annual Audit Letter to the Council.</p>	<p>See Outputs and timeline</p>
<p>We have considered our independence and objectivity in respect of the Audit and draw your attention to our approach in placing reliance on the work of internal audit. We comply with the Audit Commission's requirements in respect of independence and objectivity.</p>	<p>See Appendix A</p>

Accounts audit

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010-11 accounts. The plan is based on our risk-based approach to audit planning and is based on 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 demonstrates its 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 accurately represent 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 (AGS) 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
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> • Prior to the main financial accounts audit taking place we will agree a programme of work on the restated statements to gain assurance over these figures. • We will review the accounting policies used by the Council in its adoption of IFRS for the first time. • Specialist technical support will continue to be made available to the Council as required. • We will review the implications of any developing issues through reference to IFRS guidance and discuss with the Council accordingly.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> • We will review the Council's financial performance for the year against its agreed budget. • We will consider the use of general reserves during the year. • We will review the Council's medium term financial strategy in light of current funding arrangements.
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> • We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. Where possible, this work will be performed prior to our final accounts audit fieldwork. • We will undertake a detailed review of property, plant and equipment accounting to ensure previous recommendations have been addressed, as well as those arising upon adoption of IFRS.

Accounts audit - risk assessment

Accounting risks and planned audit response (continued)

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Use of estimates and judgements	All areas of the financial statements	A project has been completed by the International Auditing and Assurance Standards Board to clarify the International Standards on Auditing. The main area of our work that this is likely to impact on is the use of estimates and judgements within the financial statements. All judgements used by the Council, including those used by professionals such as property valuers, will need to be clearly documented and evidenced
Valuation of Council dwellings	Property, plant and equipment	We will review the documented judgements made by the Council in determining which indices and assumptions to use in line with the introduction of the Clarity ISAs (International Standards on Auditing).
Alexandra Park and Palace Trust	Group accounts consolidation	We will review arrangements in place between the Council and Alexandra Park and Palace Trust to determine whether Alexandra Park and Palace Trust should be consolidated into group accounts under IFRS.

Accounts audit - approach

Audit approach

We will:

- work closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and timetables agreed with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

In summary our audit strategy comprises:

Planning	<p>Updating our understanding of the Council through discussions with management and a review of the management accounts</p>
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design and implementation internal financial controls, including IT, where they impact the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing internal audit against the CIPFA Code of Practice
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosures 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	<ul style="list-style-type: none"> • Performing overall evaluation of the process • Determining an audit opinion • Reporting to Audit Committee

Accounts audit - other issues

Other issues

Annual Governance statement

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack for consistency with the Council's accounts.

Electoral 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; and
- 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.

Certification of Grants and Returns

In addition to our audit of the Council's financial statements and Value for Money, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out 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 Commissions "Work programme and scales of fees 2010-11.

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on 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.

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 conclusion.

2010-11 VFM conclusion

Since we issued our indicative fee letter, a new approach to local Value for Money audit work has been introduced by the Audit Commission. From 2010-11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission:

Code criteria 1

The council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will:

- Undertake an in-depth review of the Council's medium term financial plan reviewing assumptions and deliverability of the plan over the next three years
- Consider the Council's financial performance against Local Government financial ratios
- Consider the Council's response to the Spending Review and the impact that this will have on the Council's financial planning.
- Testing out budget assumptions for 2011-12 in detail and drilling down into key services to review a selection of the savings plans
- Reviewing income assumptions coming out of proposed changes to fees and charges.

Value for money audit

Code criteria 2

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness



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

Work to be undertaken

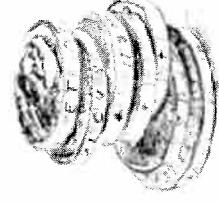
Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- Apply our VfM benchmarking tool to the Council's 2009-10 performance to establish how services performed during the year.
- Carry out a review to assess the adequacy of the Council's arrangements for managing personal budgets in Adult Social Services.
- Follow up on our 2009-10 reviews of partnership working and workforce arrangements in the context of the Council's response to the Spending Review.
- Review progress made in implementing actions arising from the recently completed independent review of governance arrangements.

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 agree brief Terms of Reference with officers specifying the objectives, scope and timing of each review.

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 London and 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.



Paul Dossett (CPFA)
Engagement Lead
T 020 7728 3180
E paul.dossett@uk.gt.com

Paul is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. Paul will be a key contact for the Chief Executive, the Director of Finance, other senior Council Officers and the Audit Committee. Paul is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Caroline Giltre (CPFA)
Manager
T 020 7728 2085
E caroline.giltre@uk.gt.com

Caroline is responsible for the audit strategy, planning and liaison with key Council contacts, including internal audit, to ensure the smooth running of the audit and the delivery of the overall audit plan. Caroline reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.



Hanisha Solanki (ACCA)
Assistant Manager
T 020 7728 2072
E hanisha.solanki@uk.gt.com

Hanisha is responsible for managing the audit of the financial statements and is the main contact for the Head of Accounts. Hanisha will provide feedback to the Council throughout the audit process and is the first point of contact for resolving technical accounting issues.



Helen Phillips (ACA)
Executive
T 020 7728 2385
E helen.phillips@uk.gt.com

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

Engagement team - specialist support



Paul Hughes (CPFA)
Client Relationship Support
T 020 7728 2256
E paul.hughes@uk.gt.com

Paul will support Caroline in setting and delivering the audit strategy, using his experience of the Council, wider local government and our other council and NHS clients in the local area.

Paul will also deputise for Paul Dosssett, as needed, and will continue to be available to the Council to discuss any issues.



Nick Taylor (ACA)
Grants Manager
T 07500 815 358
E nick.taylor@uk.gt.com

Nick is responsible for the overall management of the grants audit programme and will work with the Council to coordinate the certification of the grant claims.



Denis Thorpe (CPFA)
Technical and Quality Lead
T 077 6832 6514
E denis.thorpe@uk.gt.com

Denis is responsible for ensuring that complex technical issues are dealt with consistently across all our clients.

His role will include technical support to the audit team and will be available to support in the resolution of any complex accounting issues with the Council.



Guy Clifton (CPFA)
Advisory Specialist
T 020 7728 2903
E guy.clifton@uk.gt.com

Guy has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Guy's expertise will be used to support our work on the Council's Value for Money conclusion.

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 2008.

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 it has in place a sound control environment.

How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010-11. For the Council, the scale calculation includes a fixed element for a London Borough and a percentage of planned gross expenditure as determined by the Audit Commission.

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we then 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.

2010-11 audit fee

As set out in our indicative Audit Fee Letter issued March 2010, the total indicative fee for the audit (excluding the Pension Fund) for 2010-11 is £505,000 (exclusive of VAT), this is £10,000 less than the 2009-10 fee.

The scale audit fee for the Council has been calculated at £531,865.

The planned fee is 5% lower than the suggested scale audit fee.

In setting the audit fee below scale, we have made the following assumptions:

- ✓ a good level of proactive joint working with the Council's finance and valuations teams with timely and good quality working papers and records being provided to support the accounts audit
 - ✓ no significant issues impacting on our audit with the transition to IFRS
 - ✓ internal audit will continue to meet appropriate professional standards and undertake work on all material systems that provide figures in the financial statements, sufficient to support our audit
 - ✓ the Council will inform us of significant developments impacting on our audit and prompt responses will be provided to draft reports.
- The fee will be subject to review and may be revised if significant new risks are identified or if we are unable to progress the audit 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 Director of Corporate Resources.

Audit fee

A summary of the audit fee is shown in the table below:

Table 2: 2010/11 audit fee

Audit area	Planned fee 2010/11	Actual fee 2009/10
Financial statements#	360,000	340,000
VfM conclusion	145,000	175,000
Total audit fee	£505,000	£515,000
Certification of claims and returns*	£90,000	£90,000

Inclusive of Whole of Government Accounts and the impact of the first year of IFRS accounting, including audit review of the 2009-10 restated accounts

* The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates. Issues with the certification of large claims, such as housing benefits, will lead to additional audit costs being incurred by the Council.

New approach to local VfM work – impact on the audit fee

The Audit Commission wrote to all council chief executives in August 2010 to advise of the new approach to local Value for Money for audit work and the impact of this on the 2010/11 audit fee following the cessation of the Comprehensive Area Assessment. For 2010-11, the Commission has already given a 6% rebate to mitigate the increases in audit fees arising from the transition to IFRS and a further rebate of 3.5% of scale fee (around £19,000) has recently been announced which reflects the cessation of Use of Resources. This has the net effect of reducing the Council's 2010-11 audit fee to £486,000. The Commission has also confirmed that the Council will not be charged for abortive CAA Managing Performance Work which, if billed, would have been in the region of £20,000.

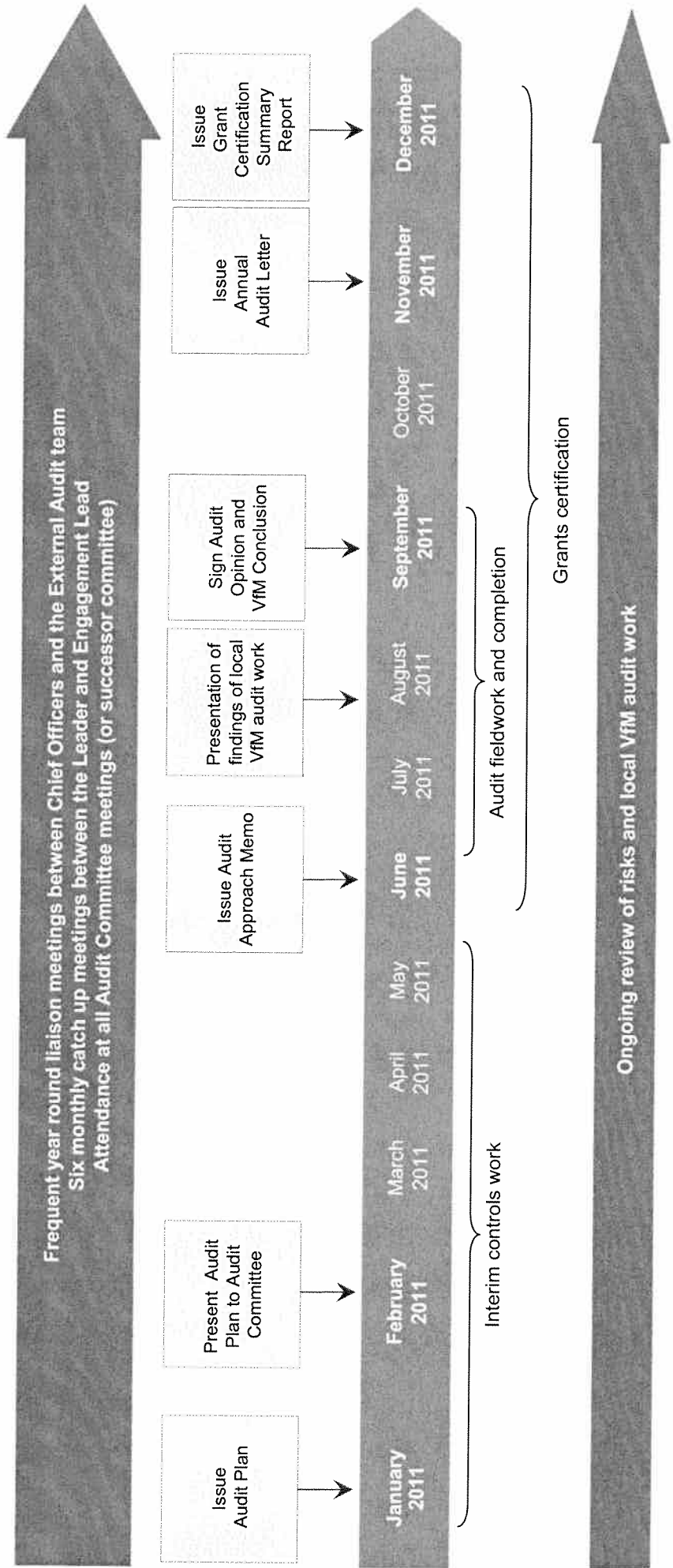
For 2011-12, the scale fee for the Council will be reduced by a further 10%, which, subject to no major movements in the variable elements of the scale fee, would be around £462,000. We will set our 2011-12 fee against the scale based on the assessed level of risk at the Council.

Outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee. Reports are addressed to management and the Audit Committee and are prepared for the sole use of the Council, and no responsibility is taken by 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 audit approach • Identify initial high risk areas and our planned response • Confirm Plan with Audit Committee 	February 2011
Audit Approach Memorandum	<ul style="list-style-type: none"> • Outline our audit strategy on conclusion of detailed audit planning • Review risks and update planned response accordingly • Highlight focus areas for the audit • Confirm with Senior Officers and Audit Committee 	June 2011
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> • Highlight key issues arising from the audit and their resolution • Communication of adjusted and unadjusted audit differences • Improvement recommendations resulting from audit procedures 	September 2011
Auditor's Reports	<ul style="list-style-type: none"> • Report on financial statements • Report on value for money conclusion 	September 2011
Annual Audit Letter	<ul style="list-style-type: none"> • Summarises the key issues arising from our 2010/11 audit 	November 2011
Grants Claim Certification	<ul style="list-style-type: none"> • Highlights key issues arising from our grants certification work • Recommendations identified for improvement 	December 2011

Timeline



Appendices

Appendix A Independence and objectivity

We are required to communicate to you an relationships that may affect the independence and objectivity of the audit team. Following the Council's employment of a former Grant Thornton employee as Assistant Director of Internal Audit and in order to comply with ethical standards we will utilise an independent partner and additional resource, as required.

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.

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).

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:

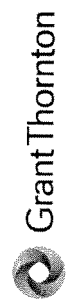
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied 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 committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

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.

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



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