

# Audit plan

London Borough of Brent

Audit 2011/12



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# Introduction

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**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.**

## **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 NHS bodies.

My audit does not relieve the Audit Committee, as those charged with governance, of their responsibilities.

## **Accounting statements**

I set out the significant risks and the approach I will take for the audit of the 2011/12 financial statements. I also detail a series of questions that auditing standards require me to ask of management and the Audit Committee each year and request a response to these prior to the commencement of the audit.

## **Value for money**

I will also assess the Authority's financial resilience and arrangements for securing economy, efficiency and effectiveness in the form of a value for money conclusion. I set out the risks for the 2011/12 value for money conclusion.

## **Milestones and deadlines, the audit team, independence and quality.**

I have set out the planned timetable and outputs from 2011/12 audit work. I also confirm the audit team is independent and set out arrangements to ensure the service provided to the Authority meets quality standards.

## **Fees**

The fee for the audit is £439,200 which is a reduction of 10 per cent from the previous years proposed fee. The fee has not changed since it was originally communicated to the Authority in April 2011. This fee is based on the assumption, that significant failings in 2010/11 will have been rectified before our 2011/12 audit commences.

# Accounting statements

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**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **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 gain an understanding of the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks 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.

## 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><b>Close down arrangements and project management</b></p> <p>The 2010/11 audit was completed two months later than the due date; the opinion was issued on the 30 November 2011. Considerable time and effort was required from both the finance and audit teams to complete the audit resulting in additional audit fees.</p> <p>Weak closedown arrangements and poor project management contributed to the delay. If corrective action is not taken quickly and closedown arrangements are not improved, there is a risk of a qualified opinion and additional fees on our 2011/12 audit.</p>	<p>I will:</p> <ul style="list-style-type: none"><li>■ review management procedures and controls over the 2011/12 closedown process;</li><li>■ review the closedown plan for 2011/12 and assess the Council's monitoring arrangements;</li><li>■ assess the actions taken to implement the recommendations I made in my 2010/11 Annual Governance Report; and</li><li>■ attend some of the weekly closedown meetings, share learning and best practice.</li></ul>
<p><b>Valuation of Property, plant and equipment (PPE)</b></p> <p>PPE is a material item in the financial statements. Except for infrastructure, community assets (where the valuation option in section 4.10 of the Code has not been adopted) and assets under construction, it is valued at fair value. The valuation is usually an estimate, therefore inherently subjective. The Council uses its internal valuer, with support from external valuers, in order to determine fair values for PPE at year end.</p>	<p>I will :</p> <ul style="list-style-type: none"><li>■ review management procedures and controls over establishing estimates, including arrangements for instructing your valuer and controls over information provided to and received from the valuer;</li><li>■ carry out audit procedures to allow me to place reliance on the work of the valuer;</li><li>■ agree the valuer's report to the financial statements;</li></ul>

Risk	Audit response
<p>Given the significant monetary values, even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk of a material error due to the size and nature of the values presented for PPE</p>	<ul style="list-style-type: none"> <li>■ compare the Council’s valuation assumptions to the Audit Commission’s appointed expert assumptions; and</li> <li>■ perform tests of detail on valuations and associated depreciation calculations.</li> </ul>
<p><b>IAS19: Defined benefit pension liability</b></p> <p>The defined benefit pension liability (IAS19) is a material item in the financial statements which is valued at fair value. The valuation is an estimate and therefore inherently subjective. The Council uses an actuary to determine fair values for IAS19 at year end.</p> <p>Given the significant monetary values, even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk of a material error due to the size and nature of the values presented for IAS19.</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>■ review management procedures and controls over establishing the liability, including arrangements for instructing your actuary and controls over information provided to and received from the actuary;</li> <li>■ perform audit procedures to allow me to place reliance on the work of the actuary;</li> <li>■ agree the actuary’s report to the financial statements and underlying data used;</li> <li>■ compare the Trust’s valuation assumptions to the Audit Commission’s appointed experts review thereof; and</li> <li>■ perform tests of detail on valuations.</li> </ul>
<p><b>Housing Revenue Account (HRA) reform</b></p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. The Council will receive a one-off settlement from central government on or before 28 March 2012 to mitigate its HRA debt. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will not reflect the accounting entries to reflect the changes.</p>	<p>I will:</p> <ul style="list-style-type: none"> <li>■ review management procedures and controls for adopting the new self-financing model;</li> <li>■ agree the settlement payment or receipt to the amount specified in the Settlement Payments Determination 2012;</li> <li>■ confirm that the settlement transaction has been accounted for in line with the requirements of CIPFA guidance;</li> </ul>



## Risk

## Audit response

### Schools – treatment of assets

Under the Education Act 1996, local authorities are responsible for securing sufficient schools within their area, regardless of provider. In most local authority areas, those schools are managed through a variety of governance arrangements. The differences in those arrangements have implications for the asset recognition under IAS 16 Property, Plant & Equipment. This is a key area of judgement for the Council in preparing its financial statements.

Given the material values involved and nature of judgements required to determine the accounting treatment, there is a risk of material misstatement.

- agree details of loan redemptions to supporting documentation; and
- review cash flow working papers to confirm that non-cash transactions associated with the loan redemptions are accounted for correctly.

I will:

- review management procedures and controls over the assessment of school assets;
- audit a sample of school assets to confirm the accounting treatment is appropriate; and
- perform tests of detail to supporting documentation underpinning the assessment.

I have considered the introduction of Financial Reporting Standard 30 Heritage Assets (FRS30) and refinancing as possible significant risks. Management have stated that their review of FRS30 indicated this is immaterial and there was no refinancing in 2011/12. We will perform audit procedures to confirm management assertions as part of our interim audit.

### Testing strategy

My audit will involve the following.

- Review and re-performance of the work of your internal auditors in respect of the testing of controls in the general ledger and payroll systems.
- An IT risk assessment.
- Placing reliance on the work of experts as follows:
  - the actuary for pensions liabilities and assets; and
  - internal and external valuers for the valuation of property, plant and equipment.
- Substantive tests of detail of transactions and amounts on all material balances.



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 Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012. I will agree with officers 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.

## **Management and Audit Committee representations required by ISA (UK&I) 240, 260 and 315**

Under the ISA (UK&I) I am required to update my understanding annually of:

- management processes and arrangements; and
- how the Audit Committee as those charged with governance gains assurance over management.

In order to comply with the standards I need to obtain and consider information from management and the Audit Committee by asking the questions addressing outlined in appendix 2 and 3 respectively. The information provided will also enable me to deliver an efficient audit, reducing the time your staff spend responding to auditor queries. I therefore request that responses to the questions are provided to me prior to the commencement of the audit.

# Value for money

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## I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to 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 Authority secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following risks that I will address through my work.

Table 2: Value for money risks

Risk	Audit response
The Local Government Finance Settlement reduced Central Government funding available to the Authority. In 2011/12 the Authority is targeting savings of £41.7 million. The remaining level of savings from 2012/13 to 2014/15 is £65 million.	I will: <ul style="list-style-type: none"><li>■ monitor progress against budget and savings plans in 2011/12;</li><li>■ review arrangements for challenging the value for money of services and progress in identifying savings for future years;</li><li>■ review the latest medium term financial plan; and</li><li>■ review performance of the One Council programme.</li></ul>

## Risk

A recent CLG survey identified the Council as the London Borough holding the lowest value of general fund reserves. The Council has developed plans to increase balances, however these are subject to delivering on the savings plans and increasing levels of demand on Council services.

The Council is involved in significant capital projects, including the new civic centre build and a large regeneration scheme in South Kilburn. These projects provide the basis for future planned savings through more efficient ways of working.

## Audit response

I will carry out the following tasks.

- Monitor progress on the plans to increase reserves in 2011/12.
- Review the Council's evaluation of the appropriateness of its reserves.
- Review the Council's plans for increasing its reserves.

I will:

- monitor progress against plans for civic centre and South Kilburn regeneration; and
- review arrangements in place manage large capital projects projects.

# Milestones and deadlines

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The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 20102.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Interim financial statements audit visit	January – April 2012	Audit Plan (June)
Final financial statements audit visit	June – September 2012	Annual governance report (September)
Value for money conclusion: review of arrangements	January – September 2012	Annual governance report (September)
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report (September)
Summarise overall messages from the audit	October 2012	Annual Audit Letter (October)

# The audit team

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

Table 4: **Audit team**

Name	Contact details	Responsibilities
Andrea White District Auditor	<a href="mailto:a-white@audit-commission.gov.uk">a-white@audit-commission.gov.uk</a> 0844 798 5784	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive and Director of Finance and Corporate Services.
Paul Viljoen Audit Manager	<a href="mailto:p-viljoen@audit-commission.gov.uk">p-viljoen@audit-commission.gov.uk</a> 0844 798 2688	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and Corporate Services.
Jonathan Ware Principal Auditor	<a href="mailto:j-ware@audit-commission.gov.uk">j-ware@audit-commission.gov.uk</a> 0208 937 1459	Manages the audit team whilst on site and ensures the prompt communication of audit issues to Central Finance.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1. I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto: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

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**The scale fee for the audit is £439,200 as set out in my letter of 13 April 2011.**

## The audit fee

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 audit fee equal to the scale fee which represents a 10 per cent reduction on the proposed audit fee for 2010/11. This fee is based on the assumption, that significant failings in 2010/11 will have been rectified before our 2011/12 audit commences.

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).

## 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 Corporate Services 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.

- Improve the quality of the draft financial statements.
- Improve the quality of working papers and audit trails.
- Ensure all key system controls are working appropriately.

## Total fees payable

In addition to the fee for the audit, the Audit Commission charges 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 5: Fees

	2011/12 proposed (£)	2010/11 actual (£)	Variance (£)
Audit	439,200	538,000**	(98,800)
Certification of claims and returns	85,000*	90,000	(5,000)
Non-audit work	-	-	-
<b>Total</b>	<b>524,200</b>	<b>628,000</b>	<b>(103,800)</b>

\* certification of claims and returns is charged on an hourly rate, so the proposed fee is an estimate.

\*\* proposed fee of £488,000 and additional fee of £50,000

# 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 6: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- Significant failings in 2010/11 will have been rectified before our 2011/12 audit commences.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting 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 30 June 2012;
  - 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 – Auditor questions to management

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In order to comply with the requirement of ISA (UK&I) 240, 260 and 315 to update my understanding of management processes and arrangements annually, I request that management provide a response to the following questions.

- 1 What are the management processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
  - identifying and responding to risks of fraud in the authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
  - communicating to employees its views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority code of conduct); and
  - communicating to the Audit Committee the processes for identifying and responding to fraud or error.
- 2 How does management gain assurance that all relevant laws and regulations have been complied with?
- 3 Have there been any instances of non-compliance during 2011/12?
- 4 Are there any actual or potential litigation or claims that would affect the financial statements?
- 5 What controls do you have in place to: identify; authorise; approve; account for; and disclose, related party transactions and relationships? For any significant new related parties (i.e. any not already disclosed in your year end 31.3.11 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2012.
- 6 Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?

- 7 Do you suspect fraud may be occurring within the Authority?
- Have you identified any specific fraud risks within the Authority?
  - Do you have any concerns that there are areas within your authority that are at risk of fraud?
  - Are there particular locations within the authority where fraud is more likely to occur?
- 8 Are you satisfied that internal controls, including segregation of duties, exist and work effectively?
- If not where are the risk areas?
  - What other controls are in place to help prevent, deter or detect fraud?
- 9 How do you encourage staff to report their concerns about fraud?
- What concerns about fraud are staff expected to report?
- 10 From a fraud and corruption perspective, what are considered to be high risk posts within your authority?
- How are the risks relating to these posts identified, assessed and managed?
- 11 Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
- How do you mitigate the risks associated with fraud related to related party relationships and transactions?
- 12 Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?
- Are there particular balances where fraud is more likely to occur?
  - Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?
  - Could a false accounting entry escape detection? If so, how?
  - Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?
- 13 Are you aware of any organisational, or management pressure to meet financial or operating targets?
- Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

# Appendix 4 – Auditor questions to the Audit Committee

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In order to comply with the requirement of ISA (UK&I) 240, 260 and 315 to update my understanding of how the Audit Committee gains assurance over management processes and arrangements, I request that the Audit Committee provide a responses to the following questions.

- 1 How do you exercise oversight of management's processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
  - identifying and responding to risks of fraud in the authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
  - communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the authority code of conduct); and
  - communicating to you the processes for identifying and responding to fraud or error.
- 2 How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011/12?
- 3 How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011/12?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?
- 5 Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?
- 6 Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?



- 7 Do you suspect fraud may be occurring within the authority?
- Have you identified any specific fraud risks within the authority?
  - Do you have any concerns that there are areas within your authority that are at risk of fraud?
  - Are there particular locations within the authority where fraud is more likely to occur?
- 8 Are you satisfied that internal controls, including segregation of duties, exist and work effectively?
- If not where are the risk areas?
  - What other controls are in place to help prevent, deter or detect fraud?
- 9 How do you encourage staff to report their concerns about fraud?
- What concerns about fraud are staff expected to report?
- 10 From a fraud and corruption perspective, what are considered to be high risk posts within your authority?
- How are the risks relating to these posts identified, assessed and managed?
- 11 Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
- How do you mitigate the risks associated with fraud related to related party relationships and transactions?
- 12 Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?
- Are there particular balances where fraud is more likely to occur?
  - Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?
  - Could a false accounting entry escape detection? If so, how?
  - Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?
- 13 Are you aware of any organisational, or management pressure to meet financial or operating targets?
- Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

# Appendix 5 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Group accounts**

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

