

# Audit plan

South Downs National Park Authority

Audit 2011/12



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# Introduction

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**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 Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of your 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. Materiality can be defined as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement’.

## **Identifying audit risks**

Auditing Standards require me to understand the Authority and identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying your business risks, including assessing your own risk management arrangements;
- considering your financial performance;
- 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 your 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>Determination of small scale planning applications</b></p> <p>You work in partnership with the 15 Local Planning Authorities (LPAs) within the Park boundaries to discharge your statutory requirement to oversee planning applications and ensure that planning guidelines are adhered to. As part of this partnership working the LPAs are responsible for the day-to-day processing and determination of smaller planning applications. These applications form the great majority of the total of planning submissions – about 96 per cent of total applications by volume.</p> <p>Both expenditure and income arising from the work of the LPAs in this area is material to your 2011/12 financial statements. The expenditure is formed of payments made to the LPAs for the service provided on behalf of the Park. Income is received in the form of fees collected from planning applicants by the LPAs on behalf of the Park.</p> <p>You have entered into a separate legal agreement with each LPA to govern this partnership arrangement. You have also established a number of financial and management controls to gain assurance that expenditure incurred and income due under the partnership arrangement is correctly recorded in your financial statements. The successful operation of these controls is partly reliant on the accuracy of data provided by the LPAs and there is incentive for the LPAs to manipulate the data provided. If controls in this area fail to operate satisfactorily there is, therefore, a risk of material fraud.</p>	<p>I have documented and walked-through the system and controls you have established to gain assurance over expenditure incurred and income received from the LPAs. Based on this I have concluded these controls are capable of providing assurance. I therefore intend to test the operation of these controls and rely on this work to gain assurance for my opinion on your 2011/12 financial statements. I also plan to do some substantive testing of the LPA data that supports the operation of the controls.</p>

## Risk

### Payroll

You use the Midland i-Trent payroll of your outsourced financial services provider Brighton & Hove City Council (the Council). Although controls within the system are capable of giving material assurance, my work, and the work of internal audit, has highlighted significant weaknesses in the operation of controls. I am therefore unable to rely on the operation of controls to gain assurance for my opinion on the financial statements.

2011/12 is your first full year of operation and expenditure generated by the payroll system is now material to your financial statements.

The weaknesses in the operation of controls within the payroll system create a risk of misstatement and fraud. The issue does therefore now impact on my responsibilities to give an opinion on your financial statements, and your responsibilities as the body charged with governance at the Authority.

There is some mitigation for the risk I have identified:

- You outsource a large proportion of your front and back office services. This means that a lower value of payments are made through the payroll system than if services were provided in-house. However, you still forecast you will make approximately £3 million of payments directly to employees in 2011/12. Your payroll is also significantly less complex than that of the Council which reduces the likelihood of error.
- Operation of the payroll system by the Council introduces further separation of duties and reduces the risk of fraud.
- My work to test payroll transactions at the Council in previous years has identified only limited errors.
- The control weaknesses within the payroll system are recognised

## Audit response

As I am not able to rely on the operation of controls I will need to substantively test payroll transactions to gain assurance for my audit opinion.

Where I sought to substantively test payroll transactions at the Council in 2010/11 difficulties in locating documentation and other evidence to support payments made caused delays in my work. My team is therefore working with officers responsible for payroll at the Council to undertake as much of this work as possible before the financial statements are produced. I am taking the same approach to the substantive testing of your payroll transactions.

## Risk

## Audit response

by management and those charged with governance at the Council. Action is being taken to address the control issues noted.

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## Testing strategy

My audit involves:

- review and re-performance of work completed by your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows, overleaf.

Table 2: Proposed work

	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Planning			Payroll
Final visit		Pensions assets and liabilities – auditor to West Sussex Pension Fund	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary	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. It is likely that your 2011/12 income, expenditure, assets and liabilities will be below the audit threshold. I will only be required to undertake limited audit procedures if this is the case. I will inform you if this position changes.

# Value for money

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## **I am required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness.**

The Audit Commission has revised the approach I am required to take for your value for money (VFM) conclusion in 2011/12. This is to allow me to take a lighter touch to my VFM work. I will meet my VFM conclusion by:

- reviewing the progress you have made to address the recommendations arising from my qualification of the 2010/11 VFM conclusion;
- reviewing your annual governance statement;
- considering the cumulative audit knowledge I have gained of the Authority from my audit and the work of other relevant regulatory bodies; and
- undertaking any other local risk-based work as I consider appropriate to discharge my responsibilities.

I intend to work with the Director of Corporate Services to discharge my responsibilities in this area. My local risk based work will be focused on the partnership arrangements you have developed with the 15 LPAs within the Park boundaries for determination of small scale planning applications.

# Key milestones and deadlines

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.

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

Activity	Date	Output
Audit plan	April 2012	Report to the Audit Committee
Opinion: controls and early substantive testing	March/April 2012	Issues arising and any recommendations for improvement will be included in my annual governance report
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	n/a
Opinion: substantive testing	July to August 2012	Annual governance report
Value for money	July to August 2012	Annual governance report
Present annual governance report at the Audit Committee	13 September 2012	Annual governance report
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

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

Table 4: **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	<a href="mailto:helen-thompson@audit-commission.gov.uk">helen-thompson@audit-commission.gov.uk</a> 0844 798 1790 / 07974 007332	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Simon Mathers Audit Manager	<a href="mailto:s-mathers@audit-commission.gov.uk">s-mathers@audit-commission.gov.uk</a> 07776 493851	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer and Director of Corporate Services.

# 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 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 fee for the audit is £20,097 as set out in my letter of 25 March 2011.**

## **The audit fee**

The Audit Commission has set a scale fee of £20,097 which represents a 13 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 Chief Finance Officer 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 will inform you of any actions I identify.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for 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	£20,097	£23,100	- £3,003

# Appendix 1 – Independence and objectivity

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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>	<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.</p>

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.

- The risk in relation to the audit of the accounting statements is lower than that identified for 2010/11. In particular I have assumed that:
  - I am able to rely on the operation of financial and management controls to gain assurance that expenditure incurred and income due under the partnership with LPAs for the determination of small scale planning applications is correctly recorded in your financial statements; and
  - I am able to complete my substantive testing of payroll expenditure promptly and that this work does not identify errors that impact on my responsibilities.
- 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.
- your officers provide:
  - 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;
  - 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

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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.

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

