

London Borough of Barnet

Accounts Audit Approach Memorandum

June 2012

Contents

1. Our accounts audit approach	2
2. Update on accounts audit risk assessment	4
3. Results of interim audit work	7

Appendices

A. Logistics	11
B. Action plan (IT Controls)	12

Our accounts audit approach

This memorandum is intended to provide additional detail regarding our audit approach, as set out in our Audit Plan 2011/1, 2 as well as an update on our response to key risks from the results of interim audit work carried out to date.

Audit approach reminder

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 agree timetables with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

The logistical details of our annual accounts audit, as agreed with the Assistant Director - Financial Services, Finance Directorate, are detailed in Appendix A to this memorandum.

Planning

- Updating our understanding of the Council through discussions with management and a review of in year internal financial reporting
- Identifying and resolving specific accounting treatment issues

Controls evaluation

- Reviewing the design effectiveness and implementation of 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 the Council's arrangements for complying with tax legislation and Bribery Act requirements
- Assessing the effectiveness of Internal Audit

Substantive procedures

- Reviewing material disclosure issues 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

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit Committee through our ISA 260 report and Annual Audit Letter

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, communicated to you and, if you agree with any management decisions to not adjust for such items, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be separately judged to be material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may equally be judged not material if it does not distort the truth and fairness of the financial statements.

Cooperation with internal audit

We work with internal audit to ensure our audit approach takes account of the risks identified from reviews they have conducted relevant to the financial statements, subject to our review of the effectiveness.

Where significant risks to the financial statements are identified from our own work, it may be possible to coordinate with the work of internal audit to avoid unnecessary duplication of effort. Where such reliance takes place this will be specifically detailed in the reporting of our results.

Review of IT systems

Our audit approach assumes that our clients utilise complex computer systems and accounting applications to routinely process large numbers of transactions. These may be used either directly or indirectly in preparing financial reporting information, including the annual accounts. Accordingly, our approach requires a review of the internal controls in the Council's information technology (IT) environment.

Based on our assessment of the complexity of the overall IT environment, we have involved specialist Technology Risk Services (TRS) team members in our audit work in order to undertake a review of the overall IT control environment.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

In order to assess whether controls have been implemented as intended, we will conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs. Where further assurance or audit efficiency may be gained, we will consider directly testing any controls that we may consider to be key in relation to the identified risk.

However, our controls work cannot be relied upon to identify all areas on non-compliance or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

The results of our controls work can be found on page 7.

Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the key audit risks identified in our Audit Plan 2011/12 and have set out in Table 1 below the outcome of work completed to date and further work planned.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

If any additional issues arise and matters come to light between now and completion of the audit, we will also include these in our ISA260 Report to those charged with Governance

Table 1. Key accounting risks and planned assurances

Issue	Audit areas affected	Work completed to date	Further work planned
Financial performance	All areas of the financial statements	<ul style="list-style-type: none">• The financial performance of the Council has been discussed at quarterly meetings with senior officers.• We have reviewed quarterly financial performance reports in the financial year to track progress.• We have also performed preliminary work on our financial resilience follow-up review.• Our work to date indicates that the Council is on track to deliver against its financial targets, including the 2011/12 budget.	<ul style="list-style-type: none">• The Council's outturn results will be reviewed as part of our final audit procedures.• Our financial resilience review will conclude on the basis of the audited financial outturn, including the final position of the general fund reserve and other earmarked reserves.

Table 1. Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed to date	Further work planned
Use of Estimates & Judgements	All areas of the financial statements	<ul style="list-style-type: none"> • The importance of disclosing estimates and judgements was discussed with Council officers at the interim audit. • Key estimates and judgements were identified and these include Property, Plant and Equipment (PPE) valuations, impairments and depreciation, and provisions including accounting for bad debts. • It was noted that there are no major new areas of disclosure in 2011/12 required by the Code of Practice. 	<ul style="list-style-type: none"> • All significant estimates and judgements will be reviewed and challenged at the final audit. • The disclosure of key estimates and judgements will also be reviewed to ensure that the requirements of the Code of Practice have been met.
HRA self financing & Housing Benefit	Income and expenditure & borrowing	<ul style="list-style-type: none"> • The Council's proposed accounting treatment and disclosures in respect of the Housing Revenue Account (HRA) settlement due on 28 March 2012 were discussed at the interim audit. • We have concluded our work on Housing Benefit claims for 2010/11, and have used this to inform our approach to the main audit fieldwork. 	<ul style="list-style-type: none"> • The HRA loan arrangements and accounting treatment will be reviewed at the final audit. Third party confirmation will be obtained for the new debt the Council will recognise in 2011/12. • Our work will provide assurance that the large monetary amounts, and high volume transactions involved are free from material error.
Accounting for property, plant and equipment (PPE)	Non current assets & Income and expenditure	<ul style="list-style-type: none"> • We reviewed and challenged a draft schedule Property Services produced prepared which highlights the valuation methodology that is applied for each type of asset. • We have used this to develop our approach to the main audit fieldwork. 	<ul style="list-style-type: none"> • We will conduct audit procedures to ensure that capital transactions in the year have been correctly reflected in the accounts. • We will confirm our view on reported impairments and re-valuations. • We will complete our work on valuations and look at the depreciation policies have been correctly applied.

Table 1. Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed to date	Further work planned
Accounting for heritage assets	Non current assets	<ul style="list-style-type: none"> • The new Code of Practice requirement to identify and disclose heritage assets in line with FRS 30 was discussed with Council officers. • In particular, discussions focused on the documentation of processes undertaken to identify heritage assets, since this will be an important source of audit evidence. 	<ul style="list-style-type: none"> • We will review the outcome of the heritage assets identification process as well as the accounting treatment and required disclosures.
Accounting for schools	Non current assets & grants and contributions	<ul style="list-style-type: none"> • The treatment of schools within the accounts was discussed with Council officers. It was noted that there is currently no definitive guidance from CIPFA on whether some school categories should be included 'on-balance sheet' and which should not. • We concluded that until such guidance is available, the Council should apply a consistent policy for each type of school. 	<ul style="list-style-type: none"> • We will review the accounting of schools as part of out final audit procedures. • We will look to perform a detailed review of the treatments of grants and contributions in regard to schools.
Employee Remuneration	Income & Expenditure	<ul style="list-style-type: none"> • We have conducted preliminary work on employee remuneration costs which are reported within the services. • Our work has focused on creating an expectation for salary costs in 2011/12 and comparing this to the values reported in each service. • This analysis helps us to understand the impact of service reconfiguration and helps direct our detailed work during the main audit fieldwork. 	<ul style="list-style-type: none"> • We will review the accounting for employee remuneration as part of out final audit procedures. This will include some detailed testing to support our analytical procedures. • We are also awaiting the results of the HMRC review to gain assurance on the treatment of employee taxation.

Results of interim audit work

Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we considered:

- the effectiveness of internal audit
- internal audit's work on the Council's key financial systems
- journal entry controls
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified significant accounting assertion risk
- a review of information technology controls.

Internal audit

We have reviewed internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Overall, we have concluded that internal audit continues to provide an independent and effective service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.

To support this assessment, we reviewed internal audit's work on the financial systems. Our work included a review of the files of the Council's new internal audit supplier. In assessing the effectiveness of internal audit work, we reviewed three internal audit files to ensure that:

- systems were adequately documented.
- key controls have been identified and evaluated.
- key controls have been tested.
- weaknesses have been reported to management.

We were pleased to note from these files that no issues were identified with internal audit's work and, in our view, these met the CIPFA standards.

Closedown procedures

We considered the Council's timetable for closedown and the arrangements for preparing the draft accounts, including guidance provided on working papers required to be made available as part of the closedown process.

The Council has established a timetable for submission of the accounts that is significantly in advance of the national deadline. The Council expects to provide detailed working papers to support the accounts at the start of our final accounts audit fieldwork, which is scheduled to commence on 11 June 2012, as well as providing the draft Annual Governance Statement and explanatory foreword in advance of this date.

Walkthrough testing

Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a significant risk of material misstatement to the financial statements.

We have not yet been able to complete our work as planned in the area of property, plant and equipment since some of the transactions do not occur until the year end. This work will be completed in June 2012 and the results will be considered as part of our accounts audit planning process prior to the commencement of our final accounts audit fieldwork.

No significant issues were noted where walkthrough testing was completed as planned and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that have been raised in the previous year. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

Journal entry controls

We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any weaknesses which are likely to adversely impact on the Council's control environment or financial statements.

To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.

Additional assurance work

To support the audit opinion for 2011/12, we have undertaken brief reviews in the following areas:

- VAT - a checklist of the Council's current arrangements has been completed to identify whether they are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation. This is currently being concluded.
- PAYE - our PAYE team have considered the work of internal audit, and the coverage of the recent HMRC review of employee taxation and concluded that this provides sufficient coverage for us to assess audit risk in this area. There are no significant matters arising at this point, however we are awaiting the results of the HMRC review.
- Fraud - our forensic team have reviewed the overall adequacy of the Council's arrangements to ensure that the risk of fraud and corruption is managed effectively. This is currently being concluded.

The results of this work will be reported alongside our accounts audit findings in our Annual Report to Those Charged with Governance (ISA260).

Appendices

A. Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set and agreed with management:

Event	Date
Pre year end fieldwork including internal controls review	Jan 2012
Completion of outstanding internal controls reviews and housing benefits testing	June 2012
Statutory accounts emailed to auditor	31 May 2012
Commence accounts audit fieldwork on site	11 June 2012
Engagement Lead visit to review work	10 July 2012
Draft ISA 260 report to be issued by	18 July 2012
Clearance meeting to discuss our findings	24 July 2012
Report to Audit Committee (ISA 260)	13 Sept 2012

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable. An agreed format and schedule of informal update arrangements will be maintained throughout the course of our audit fieldwork in support of this aim.

Engagement team

In accordance with our Audit Plan 2011/12, the main engagement team for the accounts audit will include:

Name	Role	Contact details
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Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, issued in April 2012.



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