

Meeting	Audit Committee
Date	8 April 2013
<b>Subject</b>	<b>Audit Plan 2012/13</b>
Report of	Chief Operating Officer
Summary	This report advises the committee of Grant Thornton's Audit Plan for 2012/13 and provides an update on results of interim audit work to date

Officer Contributors	Maria Christofi, Assistant Director Financial Services Catherine Peters, Head of Finance SAP Systems, Closing & Compliance Antony Russell, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards Affected	Not applicable
Key Decision	No
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A – Audit Plan 2012/13 Appendix B – Code of Conduct Review (to follow)
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## **1. RECOMMENDATION**

**1.1 That Grant Thornton's Audit Plan for 2012/13 be noted.**

## **2. RELEVANT PREVIOUS DECISIONS**

2.1 Grant Thornton's Audit Plan for 2011/12 was noted at the Audit Committee of 26 April 2012.

2.2 Grant Thornton's Accounts Audit Approach Memorandum was noted at the Audit Committee of 21 June 2012.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

3.1 The Audit Plan 2012/13 will assess fundamental aspects of financial standing and performance management in Barnet, that relates to the council's 'Better Services with Less Money' corporate priority.

## **4. RISK MANAGEMENT ISSUES**

4.1 The Audit Plan 2012/13 highlights the council's Statutory responsibility in respect of producing the financial statements. Without appropriate close down processes in place and references to Local Government financial reporting policies there is a risk that statutory deadlines may be missed or accounting policies misinterpreted without the appropriate reference to the external auditors views or concerns. The consequence of this could result in qualified financial statements or a qualified value for money opinion.

## **5. EQUALITIES AND DIVERSITY ISSUES**

5.1 The Audit Plan 2012/13 has the potential to cover the inspection and assessment of all services within the authority that, in turn, impact on all members of the community.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

6.1 This report sets out the timeline and framework for the assessment of the council's financial reporting, management and standing, as well as value for money.

## **7. LEGAL ISSUES**

7.1 None in the context of this report.

## **8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)**

8.1 Council Constitution Part 3, Section 2 (Responsibility for Council Functions) details the functions of the Audit Committee including "To consider the external auditor's annual letter" and "To comment on the scope and depth of external audit work and to ensure it gives value for money".

## 9. BACKGROUND INFORMATION

- 9.1 The purpose of the Audit Plan is to highlight the key elements of Grant Thornton's 2012/13 external audit strategy for the council. It is compiled based on their audit risk assessment and discussion of key risks with management. It is reported to the Audit Committee as those charged with governance for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.
- 9.2 The audit plan identifies that Grant Thornton are responsible for performing the audit in accordance with ISAs (UK and Ireland) and to give an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance.
- 9.3 In previous years an Accounts Audit Approach Memorandum was also produced by Grant Thornton and reported to the Audit Committee. This provided additional details on the audit approach as well as an update on their response to key risks from the results of interim audit work carried out. The 2012/13 Audit Plan includes all the detail and therefore there will be no Accounts Audit Approach Memorandum in 2012/13.
- 9.4 The Audit Plan sets out a number of challenges and opportunities that Grant Thornton have identified and taken into consideration in planning their audit. These challenges and opportunities are as follows:
- 9.4.1 Managing the council's finances  
Grant Thornton will monitor the Council's progress in developing a balanced budget for 2013/14 and in responding to key new financial challenges including council tax, business rates and welfare reform as part of their 2012/13 VfM Conclusion.
- 9.4.2 One Barnet transformation programme  
Grant Thornton will carry out risk-based reviews of the Council's Code of Conduct and the proposed Development and Regulatory Services contract as part of their 2012/13 VfM Conclusion and provide feedback
- 9.4.3 Investment in schools  
Grant Thornton will monitor the Council's capital programme to understand how the Council is using this to invest in its schools. They will also consider how the Council is working with its academy schools to support the improvement and growth in schools needed and discuss the accounting implications of any further schools transferring to academy status, with finance officers as appropriate.
- 9.4.4 Public Health transition  
Grant Thornton will monitor the Council's progress in managing the financial implications of taking on the new public health responsibilities as part of their 2012/13 VfM Conclusion and will share good practice where identified.

9.5 The Audit Plan also details key developments and other requirements that Grant Thornton have identified and considered in planning their audit. These are as follows:

9.5.1 Financial reporting

Grant Thornton will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through their substantive testing
- schools are accounted for correctly and in line with the latest guidance
- grant income is recognised in line with the correct accounting standard and
- valuations have been completed in accordance with relevant International Financial Reporting Standards (IFRS), based on appropriate methods and assumptions using suitable data and assumptions

9.5.2 Legislation

The impact of legislative changes will be discussed with the Council through regular meetings with senior management and those charged with governance, with Grant Thornton providing a view where appropriate

9.5.3 Corporate Governance

Grant Thornton will

- review the arrangements the Council has in place for the production of the Annual Governance Statement (AGS)
- review the AGS and the explanatory foreword to consider whether they are consistent with their knowledge and
- explore suggestions around how the Council may wish to further develop these documents in line with further best practice

9.5.4 Pensions

Grant Thornton will discuss how the Council is planning to deal with the impact of the 2013/14 changes through meetings with senior management.

9.5.5 Potential Insurance liability

Grant Thornton will review the estimates and judgements made by management and the adequacy of the provision in place in light of the most recent information available at the time of the audit.

9.5.6 Other requirements

Work will be undertaken on the Whole of Government Accounts (WGA) in accordance with requirements and Grant Thornton will certify grant claims and returns in accordance with Audit Commission requirements.

9.6 Grant Thornton will undertake a risk based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts. Grant Thornton have identified the following risks that the audit approach will focus on:

9.6.1 Significant risks identified

These risks are not specific to Barnet and are applicable to all audits under auditing standards. They are identified as:

- The revenue cycle includes fraudulent transactions and
- Management override of controls

9.6.2 Other risks identified

Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous year's audits.

9.6.3 No material risk of misstatement

The remaining areas of risk that were identified are shown to have no material risk of misstatement.

9.7 Grant Thornton are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

9.8 As part of the interim audit work and in advance of the final accounts audit fieldwork, Grant Thornton:

- Considered the effectiveness of the internal audit function;
- Considered Internal Audit's work on the Council's key financial systems;
- Carried out walkthrough testing to confirm whether controls are implemented according to their understanding in areas where they have identified a risk of material misstatement;
- Carried out a review of Information Technology controls; and
- Undertook some early substantive work to help to reduce the testing burden at the final accounts stage

9.9 Grant Thornton have reviewed the work of internal audit and concluded that the Internal Audit Service continues to provide an independent and satisfactory service to the council and that they can take assurance from their work in contributing to an effective internal control environment at the Council.

9.10 No significant issues were noted where walkthrough testing was completed and in-year internal controls were observed to have been implemented in accordance with Grant Thornton's documented understanding.

9.11 Grant Thornton's information specialist is currently performing a high level review of the general IT control environment as part of the overall review of the internal controls system. Work is still on-going and any findings will be reported to the Audit Committee as part of Grant Thornton's Audit Findings in the 'Report to those charged with Governance (ISA 260).'

9.12 Early substantive work undertaken for the first nine months of the financial year on the following areas did not result in any significant issues, inconsistencies or errors being identified:

- Employee remuneration
- Operating expenses
- Income and
- Journal entry controls

9.13 Grant Thornton are required 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. The 2012/13 value for money conclusion will be based on two reporting criteria specified by the Audit Commission:

- The council has proper arrangements in place for securing financial resilience and
- The council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness in its use of resources.

9.14 Grant Thornton will do this by undertaking the following risk based work focusing on the Council's financial governance, strategic financial planning and financial control:

- Follow up progress against the areas assessed as 'Amber' in the 2011/12 Financial resilience report: capital programme management, controls over letting contracts, and strengthening internal controls with the aim of minimising the number of 'limited assurance' reports from Internal Audit.
- Monitor how the Council is managing key financial risks relating to new functions and Government policy changes, specifically the adoption of public health powers and Council Tax, Business Rates and Council Tax benefit reform, alongside continuing cuts in funding.
- Review how the Council is using its Code of Conduct to identify and respond to potential conflicts of interest.
- Review the Council's proposed Development and Regulatory Services contract to assess how this will provide the Council with sufficient oversight and control to direct the service and manage the strategic risks to the service over the life of the contract.

9.15 The audit plan confirms the indicative audit fee for 2012/13 which was presented at Audit Committee on 10 December 2012.

## 10. LIST OF BACKGROUND PAPERS

10.1 None.

<b>Cleared by Finance (Officer's initials)</b>	<b>JH / MC</b>
<b>Cleared by Legal (Officer's initials)</b>	<b>SS</b>