

Luton Borough Council

Audit planning update 2010/11

December 2010



An overview of your 2010/11 Audit Planning update

This is our audit planning update for the financial year 2010-11 for the Luton Borough Council (the Council). It sets out the work that we will deliver in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant challenge, the underlying level of risk in relation to the audit is higher than 2009/10 due to financial pressures in 2010/11 and beyond. Following the 2009/10 audit we have updated our accounts audit risk assessment and concluded that profile has not changed.	See Accounts audit
In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.	See Value for money audit
Our main audit team includes a new assistant manager to lead the final accounts process. As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.	See Engagement team
We have used the Audit Commission scale of fees work programme for 2010/11 to calculate your proposed audit fee which remains unchanged from the indicative fee which we communicated to you in March 2010. Revised arrangements for indicative 2011/12 fees are due to be published shortly.	See Audit fee
You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.	See Outputs and timeline
We have considered our independence and objectivity in respect of the Audit and draw your attention to our approach in placing reliance on the work of internal audit. We comply with the Audit Commission's requirements in respect of independence and objectivity	See Appendix A

Accounts audit

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010/11 accounts. The plan is based on our risk-based approach to audit planning and is based on our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

The Council's accounts are an essential means by which it demonstrates its stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare accounts, which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.



Accounts audit - risk assessment

Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> We will review the accounting policies used by the Council in its adoption of IFRS for the first time. Specialist technical support will be made available to the Council as required. We will review the implications of any developing issues through reference to IFRS guidance and discuss with the Council accordingly.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> We will review the Council's financial performance for the year against its agreed budget. We will consider the use of general reserves during the year. We will review the Council's medium term financial strategy in light of current funding arrangements.
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> We will review any valuations undertaken and ensure that these are in compliance with the requirements of IFRS. We will also consider the timeliness of the Council's work on valuations. We will undertake a detailed review of property, plant and equipment accounting to ensure all issues identified in the prior year have been addressed, as well as those arising upon adoption of IFRS. We will review the robustness of the data transfer in setting up the Council's new asset accounting module.
London Luton Airport	All areas of the financial statements	<ul style="list-style-type: none"> We will review the financial implications of the Council's decision regarding the break clause in the current contract for the concession on the Council's investment in London Luton Airport and its valuation in the 2010/11 accounts

Accounts audit - approach

Audit approach

We will:

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

In summary our audit strategy comprises:

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

Accounts audit - other issues

Other issues

Annual Governance statement

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

Whole of Government Accounts

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

Electors challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Certification of Grants and Returns

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

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2010-11.'

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

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

Value for money audit

Introduction

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

2010/11 VFM conclusion

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

Code criteria 1



Work to be undertaken

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

Specifically we will:

- Undertake an in-depth review of the Council's medium term financial plan;
- Consider the Council's financial performance against Local Government financial ratios; and
- Consider the Council's response to the CSR and the impact that this will have on the Council's financial planning.

Value for money audit

Code criteria 2

Work to be undertaken

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

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

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

Specifically we will:

- Apply our VfM benchmarking tool to the Council's 2009/10 performance to establish how services performed during the year.
- Review the Council's progress in reducing its high levels of sickness absence when compared to regional averages.
- Consider the value for money issues related to the concession contract at London Luton Airport.

We will tailor our VfM work to ensure that as well as addressing our high risk areas, it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for Officer and Members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review which will be agreed with Officers.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any high risk areas identified.





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