



**Stevenage Borough Council**

**Accounts Audit Approach Memorandum  
2009/10**

**June 2010**

<b>Contents</b>		<b>Page</b>
<b>1</b>	<b>Our audit approach</b>	<b>1</b>
<b>2</b>	<b>Key audit issues and financial reporting matters</b>	<b>4</b>
<b>3</b>	<b>Logistics</b>	<b>6</b>
<b>4</b>	<b>The small print</b>	<b>8</b>

# 1 Our audit approach

## 1.1 Audit objectives

Our audit objectives are as follows:

- to audit the financial statements of Stevenage Borough Council (the Council)
- to produce a concise and constructive report of key issues to the Council (our ISA 260 report)
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

## 1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff.

In summary our audit strategy comprises:

- updating our understanding of the business through discussions with management and a review of the management accounts
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures
- testing the operating effectiveness of the internal financial controls, where appropriate
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams.
- reviewing the Annual Governance Statement for consistency with our understanding of the Council's governance arrangements.

ISAK 260 requires

communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

### 1.3 Identified high risk areas

In summary, the high risk areas on which our audit will focus will be as follows:

#### **Current economic climate**

The current economic climate brings a variety of risks to the audit of the Council's accounts. These include the valuation of land and buildings, defaults in Council Tax and NNDR payments and reductions in capital receipts, as well as pressure on income from, for example, car parking.

#### **Investment balances**

There remains a risk of financial institutions becoming insolvent, which could potentially lead to the overstatement of investment balances.

#### **Members allowances**

There continues to be significant public interest in the level of members allowances. As part of our review we will consider the allowances paid in the year alongside the monitoring arrangements that are in place.

#### **SORP requirements**

In particular, the 2009 SORP has changed the arrangements for accounting for Council Tax and NNDR. The prior year adjustment as a result of these changes will be considered alongside the treatment of Council Tax and NNDR in the current year.

#### **Housing Benefits system**

There has been a change in the benefits system during 2009/10. This gives rise to an audit risk that there has been disruption to the service whilst the system was being changed.

#### **Group accounts**

We are required by auditing standards to gain sufficient assurance over the audit process for Stevenage Homes Limited before we can sign the Group accounts. There is a risk that this information is not available before 30 September.

#### **Elector questions**

Under section 15 of the Audit Commission Act, local government electors have the right to ask formal questions of the auditor or make formal objections to the 2009/10 accounts. We will report back to the Audit Committee any matters raised by electors which we consider to be significant.

#### **Use of Resources**

The Audit Commission has recently confirmed that work related to CAA should cease. A VFM conclusion is still required and this will be based upon the UoR work that has already been completed. Our reporting will be on the basis of the VFM conclusion only, with no reference to UoR scores.

These and other identified matters are further detailed in Section 2.

## 1.4 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 and 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, discussed with you and, if you do not adjust, 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 judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

ISAUK 260 requires communication of:

- our concept of materiality and its application to the audit approach
- the way we propose to address the risk of material misstatements
- our assessment of and reliance on internal controls.

## 1.5 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.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted. Our recent review has confirmed the effectiveness of the internal audit function for this purpose.

## 1.6 Audit of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved Technology Risk Services team members during the audit, this was based on the complexity of IT used in the significant transaction cycles and the control risk assessment completed. Key issues identified from this review will be incorporated into the ISA 260 report.

## 2 Key audit issues and financial reporting matters

### 2.1 Introduction

We will report to you in our Annual Report to Those Charged with Governance (ISA 260), our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit, as set out in the tables below:

#### A. Key audit issues

Issue	Response
<p><b>Current economic climate</b></p> <p>The current economic climate brings a variety of risks to the audit of the Council's accounts. The revaluations undertaken on land and buildings remain a key area and will be considered in detail as part of the audit process. In addition to this, pressure on businesses leads to a higher risk of default on national non-domestic rates payments to the Council, as higher levels of unemployment lead to an increased risk of default in paying Council Tax. Other implications include a reduction in the level of capital receipts as sales of assets fall and reduced income from services such as car parking and leisure.</p>	<p>We will review the carrying values of both tangible fixed assets and financial assets for evidence of impairment and review any calculations incorporated into the accounts to identify whether or not any write downs have been appropriately calculated.</p>
<p><b>Investment balances</b></p> <p>There remains a risk of financial institutions becoming insolvent, which could potentially lead to overstatement of investment balances.</p>	<p>We will review the Council's investments and review this list against the Council's treasury management policy to ensure investments are in accordance with the policy.</p>
<p><b>Members allowances</b></p> <p>There continues to be significant public interest in the level of members allowances.</p>	<p>As part of our review we will consider the allowances paid in year alongside the monitoring arrangements that are in place.</p>

---

### **SORP requirements**

In particular, the 2009 SORP has changed the arrangements for accounting for Council Tax and NNDR. The prior year adjustment as a result of these changes will be considered alongside the treatment of Council Tax and NNDR in the current year.

We will review the Council's accounts against the SORP disclosure checklist to ensure that disclosures in the statement of accounts comply with the requirements of the SORP.

---

### **Housing Benefits system**

There has been a change in the benefits system during 2009/10. This gives rise to an audit risk that there has been disruption to the service whilst the system was being changed.

The change over process was considered as part of the interim audit work. In addition, it will be reviewed in detail as part of the year end audit process.

---

### **Group accounts**

We are required by auditing standards to gain sufficient assurance over the audit process for Stevenage Homes Limited before we sign the Group Accounts. There is a risk that this information is not available before 30 September.

We have been in contact with the auditors of Stevenage Homes Limited to outline our requirements from them in respect of the audit of the group.

---

### **Electors questions**

Under section 15 of the Audit Commission Act, local government electors have the right to ask formal questions of the auditor or make formal objections to the 2009/10 accounts.

We will report back as appropriate to the Audit Committee any matters raised by electors which we consider to be significant in our Annual Report to those charged with governance (ISA 260).

---

### **Use of Resources**

The Audit Commission has recently confirmed that all work related to CAA should cease.

A VFM conclusion is still required and this will be based upon the UoR work that has already been completed. Our reporting will be on the basis of the VFM conclusion only, with no reference to UoR scores.

---

## 3 Logistics

### 3.1 Timetables and milestones

The following proposed timetable and deadlines have been set:

<b>Event</b>	<b>Date</b>
Pre year end fieldwork including internal controls review	April 2010
Approval of Accounts required by	30 June 2010
Commence fieldwork	19 July 2010
Manager visit to review work	TBC
Partner visit to review work	TBC
Clearance meeting to discuss our findings	TBC
Report to Audit Committee	6 September 2010

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.

### 3.2 Engagement team

Our engagement team for the audit will include:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Paul Winrow	Engagement Lead	T: 0207 728 2269 E: paul.winrow@gtuk.com
Nick Taylor	Engagement Manager	T: 01223 225514 E: nick.taylor@gtuk.com
Natalie Sharp	In-charge Accountant	T: 0207 728 2416 E: natalie.sharp@gtuk.com
Negat Sultan	IT Manager	T: 0121 697 6026 E: negat.sultan@gtuk.com

### 3.3 Fees

Our fee for the audit is £136,400 as agreed in our 2009/10 audit plan issued to the Council in March 2009. This fee includes the audit of the Council's financial statements and work to support our Value for Money conclusion, including the UoR assessment.



We have proposed this fee on the basis that:

- statutory accounts are presented to us by 30 June 2010 for our review, with appropriate disclosures
- supporting schedules for all figures in the accounts in line with the requirements of our audit arrangements letter issued in March 2010 are supplied by the agreed dates
- all books and records are made available to us
- a trial balance together with reconciled control accounts are presented to us on the commencement of the fieldwork date
- your staff are available to help us locate information and to provide explanations
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

## 4 The small print

### 4.1 Introduction

This section of the memorandum contains other matters that we are required to communicate with the Council under auditing standards and the firm's procedures. Our Annual Report to Those Charged with Governance (ISA 260) will contain further messages that we need to communicate to you once we are about to complete our accounts audit.

#### **Engagement terms**

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Council for the year ended 31 March 2010.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

#### **Confidentiality**

This memorandum is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our Code responsibilities to the Council as set out in our audit plan.

The contents of this Accounts Audit Approach Memorandum should not be disclosed to third parties without our prior written consent.

#### **Ethical standards**

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

#### **Communication of adverse or unexpected findings**

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the Council's management and documented for the Audit Committee's consideration.

#### **Audit quality assurance**

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. We also conduct internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

### **Independence and robustness**

To maintain our independence as auditors we ensure that:

- Engagement Leads are rotated off the audit of audited bodies every five years and Engagement Managers every seven years
- Grant Thornton, its Engagement Leads and the audit team have no family, financial, employment, investment or business relationship with the Council
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual Engagement Lead
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

### **Audit and non-audit services**

Services supplied to the Council during the year are set out below:

	£
<b>Audit services</b>	
Statutory Audit	136,400

### **Communication with those charged with Governance**

Communication with those charged with governance is an essential element of the audit. We will discuss with the Audit Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising

We would also be interested to hear if there are other matters that the Audit Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

### **Roles and responsibilities**

The directors are responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs and for making available to us all the information and explanations we consider necessary.

Legislation requires that the directors' report must contain a statement that, for each person who was a director when the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Council's auditors are unaware
- they have taken all steps they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Council's auditors are aware of that information.

Legislation also requires that the Council maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Council.

The Council's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Audit Committee that this has been done.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.

**Grant Thornton UK LLP**  
**June 2010**



**[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)**

© 2010 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ("Grant Thornton International"). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication