



St Edmundsbury
BOROUGH COUNCIL

B126

Performance and Audit Scrutiny Committee 26 July 2010

Audit Commission – Audit Opinion Plan

SUMMARY

A representative from the Audit Commission will be attending the meeting to present the attached Audit Opinion Plan. This plan sets out the audit work which the Commission proposes to undertake for the audit of financial statements 2009/10, and sets out the fee for that work. The planned outputs are set out in the plan, including points at which reports will be issued to this Committee.

The Audit Commission representative will answer any questions Members may wish to raise following presentation of the plan.

PURPOSE OF THE REPORT

The Audit Opinion Plan is for Members' information.

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Audit Opinion Plan

St Edmundsbury BC

Audit 2009/10

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

Responsibilities

- 2 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. This has recently been updated to accompany the revised Code of Audit Practice and became effective from 1 April 2010.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the 2010 Code of Audit Practice.

Fee for the audit of financial statements

- 5 The fee for the audit of the financial statements is £58,850, of a total audit fee of £100,800 as indicated in my letter dated 24 April 2009.
- 6 In setting the fee, we have assumed that:
 - the overall level of risk in relation to the audit of accounts is consistent with that for 2008/09;
 - good quality working papers are made available to us to support the financial statements; and
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions the Council could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.
- 10 There are a number of technical changes which are applicable to the financial statements for local authorities in 2009/10. These changes apply to all local authorities and are contained in a Statement of Recommended Practice (SORP) issued by the professional accounting bodies. Officer attendance at our workshop held in February 2010 should have enabled officers to focus attention on the key changes this year.

Auditors report on the financial statements

- 11** We will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

We are required to issue an audit report giving an opinion on whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 12** As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council;
 - 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 the Council's information systems.

Identification of specific risks

13 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 **Specific risks**
Specific opinion risks identified

Risk area	Audit response
<p>Changes to the 2009 Statement of Recommended Practice (SoRP)</p> <p>There have been some key changes to the CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2009, the Statement of Recommended Practice (SORP).</p>	<p>We will review our testing approach and address any material issues arising from the impact of the SoRP changes on the Authority's financial statements.</p>
<p>Collection Fund</p> <p>The SoRP 2009 changes to the way Authority's element of the debtor and creditor is reported in the financial statements.</p> <p>2008/09 accounts to be restated.</p>	<p>We will review the 2009/10 and 2008/09 restated disclosures for compliance with the SoRP. We will also consider consistency of reporting with other Suffolk Authorities and use of the CIPFA workbooks.</p>

Testing strategy

- 14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 15 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 16 Wherever possible, we will seek to rely on the work of Internal Audit to help meet our responsibilities. The fee for 2009/10 assumes that we can use the results of their audit work on the main financial systems.

Key milestones and deadlines

- 17 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 18 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 19 During the detailed testing phase in July and August we will meet with the key contact and review the status of all queries on a regular basis, usually fortnightly, during the audit. If appropriate, we will meet at a different frequency depending on the need and the number of issues arising.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	30 April 2010
Receipt of financial statements	30 June 2010
Forwarding audit working papers to the auditor	30 June 2010
Start of detailed testing	July 2010
Progress meetings	Fortnightly
Present report to those charged with governance at the Performance and Audit Scrutiny Committee	By 30 September 2010
Issue opinion	By 30 September 2010

The audit team

20 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Neil Harris District Auditor	neil-harris@audit-commission.gov.uk 0844 798 2414	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Melanie Richardson Audit Manager	melanie-richardson@audit-commission.gov.uk 0844 798 3004	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Sophie Harcombe Team Leader	s-harcombe@audit-commission.gov.uk 0844 798 3702	Manages and reviews work of the audit team and works with the Audit Manager to deliver the audit. Provides regular updates on audit progress by liaison with finance staff.

Independence and objectivity

- 21 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 22 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

- 23 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

The audit team

Quality of service

- 24 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor in the first instance. Alternatively, you may wish to contact Andy Perrin (Head of Operations).
- 25 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.
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Planned outputs

- 26 Reports will be discussed and agreed with the appropriate officers before being issued to the Performance and Audit Scrutiny Committee.
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Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	July 2010
Annual governance report	By 30 September 2010
Auditor's report giving an opinion on the financial statements	By 30 September 2010
Final accounts memorandum (to officers)	November 2010
Annual audit letter	By 31 December 2010

Appendix 1 – Basis for fee

- 27** The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 28** The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.
- 29** This is an ongoing process. Where additional risks are identified for example at the Council or from national guidance or events, the level of fee will be reviewed.

Assumptions

- 30** In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 31** Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 32** Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 33** The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 34** International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 35** The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Performance and Audit Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 36** The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

- 37** The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - 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.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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.
- 38** The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

- 39 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 40 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Finance Officer	AM and Team Leader (TL)	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Deputy Chief Finance Officer	AM and TL	Quarterly	Update on audit issues
Performance and Audit Scrutiny Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

- 41 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
- reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.