

Audit Opinion Plan

South Cambridgeshire District Council

Audit 2009/10

April 2010

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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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any 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. The Audit Commission has issued a copy of the Statement to every audited body.
- 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 Code of Audit Practice.

Fee for the audit of financial statements

- 5 The indicative fee for the 2009/10 audit is £124,500. This is £10,000 more than stated in our letter of 30 April 2009 because of the further risks we have identified from the audit of the Council's statement of accounts in 2008/09.
- 6 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on several variables, including the type, size and location of the audited body.
- 7 The Audit Commission scale fee for the Council is £116,100. The fee proposed for 2009/10 is 7.2 per cent above the scale fee and is within the normal level of variation specified by the Commission.
- 8 In setting the fee, we have assumed that:
 - risks will remain in respect of the content and operation of the fixed asset register;
 - the Council will provide full audit trails for all key balances and entries to the financial statements; and
 - the Council will have fully addressed the other issues identified in our Annual Governance Report in respect of the financial statements;
- 9 Where these assumptions are not met, we will need to undertake extra work which is likely to result in an increased audit fee. Where this is the case, we will discuss this firstly with the Executive Director (Corporate Services) and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 10 Appendix 1 sets out further information on the basis for the fee.

Specific actions South Cambridgeshire District Council could take to reduce its audit fees

- 11 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. The 2008/09 Annual Governance Report set out areas for improvement in terms of the financial statements, which have been taken account of in the setting of the audit fee. We will review the Council's plans to address these areas for improvement, once produced, with a view to providing comments in advance of the 2009/10 closedown.

Auditors report on the financial statements

- 12 We will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 13 We are required to issue an audit report giving our opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 14 As part of our audit risk identification process, we need to understand fully 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 information systems.

Identification of specific risks

15 We have considered the further risks relevant to the current opinion audit and have set these out below.

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

Risk area	Audit response
<p>As the economic downturn continues, local authorities expect less grant support from central government. The Council has reassessed its medium term financial strategy as part of the 2010/11 budget setting exercise. It has assessed the impact of the recession and plans to reduce expenditure across the Council by some £2.1m in 2010/11. Achievement of these savings will involve staff reductions and will impact on service provision.</p>	<p>As part of the Use of Resources work we will carry out a review of budget setting and budgetary control within the Council. We will also carry out detailed work around the completeness of expenditure as part of our opinion audit.</p>
<p>The 2008/09 audit identified a number of significant issues around the maintenance of the fixed asset register and the measurement, classification and accounting for capital assets. The existing fixed asset register does not currently fully comply with the requirements of CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2009, the Statement of Recommended Practice (2009 SORP).</p>	<p>We will substantively test the movement on the fixed asset balances in line with the requirements of the 2009 SORP.</p>
<p>In 2008/09 we identified that the fixed asset register, housing maintenance database and housing rents database were not automatically being reconciled. This reconciliation was completed during the 2008/09 final accounts audit.</p>	<p>We will review and substantively test the reconciliation of the three databases.</p>

Risk area	Audit response
The Council's methodology for identifying the FRS 17 entries in 2008/09 did not reconcile to the actuarial report.	We will review the changes to the FRS17 methodology as part of the post statements audit.
Our audit work in 2008/09 identified that the classification of expenditure to capitalise was only undertaken as a year end process, rather than on an ongoing basis. This increases the risk that incorrectly capitalised expenditure is not identified until after the year end with adverse impact on the revenue budget.	We will carry out an overview of the capitalisation of expenditure prior to preparation of the financial statements.
Due to the nature of certain financial systems, balance and system reports for the financial statements can only be produced at year end. Not all such reports were produced and retained for audit in 2008/09.	We will work with your officers to ensure that all necessary reports are produced and retained.
Clear audit trails supporting entries within the accounts were not available in all cases at the start of the audit. This has an adverse impact on the timing and time spent on completing the audit.	We will supply, discuss and agree detailed working paper requirements with officers in advance of closedown.
The accounting for National Non Domestic Rates and Council Tax moves to an agency basis under amended requirements of the 2009 SORP. This will involve the restatement of the comparator balances and removal of debtor and creditor balances from the Council balance sheet in respect of other major precepting bodies.	We will review the Council's restatement of prior year comparators when produced prior to the production of the draft statement of accounts. The audit of the allocation of balances between the major precepting bodies will be carried out as part of our post statements work.
The 2009 SORP also introduces revised accounting arrangements for Public Finance Initiative (PFI) and similar service contracts. Although the Council does not have any PFI contracts it is possible that it has service contracts that fall within the definition.	We will review the Council's assessment of the existence of relevant service contracts and the appropriate accounting treatment.

Testing strategy

- 16 Based on the 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.
- 17 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where we could carry out early substantive testing.
 - Review of accounting policies;
 - fixed assets – confirmation of ownership and existence
 - fixed assets - valuation instructions
 - capitalisation of expenditure.
- 19 Where we identify that other early testing is possible, we will discuss this with officers.
- 20 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. However, the timing and coverage of that work reduces the reliance we can take from it.

Key milestones and deadlines

- 21** 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 producing and auditing the financial statements are shown in Table 2.
- 22** We will agree with you a schedule of working papers needed to support the entries in the financial statements.
- 23** Every week, we will meet with the key contact and review the status of all queries. 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	April 2010
Receipt of accounts	30 June 2010
Providing audit working papers to the auditor	1 July 2010
Start of detailed testing	1 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Corporate Governance Committee	September 2010 (Council has yet to set the date of the Corporate Governance Committee meeting in September)
Issue opinion	By 30 September 2010

Use of resources and inspection risks update

- 24 We have reviewed the risks identified in our April 2010 fee letter on use of resources and inspection taking account of our detailed work last year. Due to the timing of that work and reporting timescale the Council's response to the majority of the areas for improvement will not impact on the 2009/10 assessment.
- 25 As a result, in addition to our consideration of the Council's response to our 2008/09 report, our use of resources work will include detailed work on:
- Key Line of Enquiry (KLOE) 3.1 on natural resources
 - Partnership working - in particular the approach to the proposed revenues partnership
 - Medium term financial strategy - especially the response to the recession and the 'no' vote in respect of stock transfer
 - Budgetary control - setting and monitoring the budget in changing circumstances.

The audit team

26 The table below shows the key members of the audit team for the 2009/10 audit.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Debbie Hanson District Auditor	d-hanson@audit-commission.gov.uk 0844 798 5816	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Neil Gibson Audit Manager	n-gibson@audit-commission.gov.uk 0844 798 4142	Manages and coordinates the different parts of the audit work. Key point of contact for the Executive Director (Corporate Services)
Daniel Woo Team Leader	d-woo@audit-commission.gov.uk 0844 798 5786	Responsible for day-to-day supervision of the audit team. Key point of contact for the Head of Accountancy

Independence and objectivity

27 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which auditing and ethical standards require us to communicate to you.

28 We comply with the ethical standards issued by the APB and with the Commission's requirements for independence and objectivity as summarised in Appendix 2.

Meetings

29 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 3 sets out our proposals.

The audit team

Quality of service

- 30** 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 me first. Alternatively, you may wish to contact the Eastern Sub-region Head of Operations, Andy Perrin on a-perrin@audit-commission.gov.uk.
- 31** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The leaflet 'Something to Complain About' which is available from the Commission's website or on request sets out the complaints procedure.
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Planned outputs

- 32** We will discuss and agree reports with the relevant officers and then issue them to the Audit Committee.
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Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report (including use of resources)	early September 2010
Auditor's report giving an opinion on the financial statements	by 30 September 2010
Final accounts memorandum (including grant claims)	November 2010
Annual audit letter	December 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based on 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.
- 2 The risk assessment process starts with identifying the significant financial and operational risks applying to the Council by considering:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and current audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the risks in respect of the content and operation of the fixed asset register will remain;
 - the other issues raised within the Annual Governance Statement will be fully addressed;
 - you will tell us of significant developments affecting the audit;
 - Internal Audit meets the relevant professional standards;
 - you will provide good quality working papers and records to support the financial statements by 1 July 2010;
 - you will provide requested information within agreed timescales;
 - you will provide prompt responses to draft reports; and
 - extra work will not be needed to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, we will need to undertake extra work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 1 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 APB.
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 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 the auditor has charged the client; and
 - confirms in writing compliance with the APB's ethical standards and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the proper addressee of communications from the auditor to those charged with governance is the Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which we consider to be of sufficient importance.
- 5 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.

- 6 The Standing Guidance for Auditors includes some specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (that is work beyond the minimum required to meet their statutory responsibilities) if it would compromise their independence or might cause a reasonable view 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.
- 7 The District Auditor and members of the audit team must follow the Commission’s policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

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

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Corporate Governance Committee	DA and AM, with TL as necessary	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual audit letter Other issues as necessary
Chief Executive	DA and AM	Quarterly	General update Review of formal reports Other issues as necessary
Executive Director - Corporate Services (S151 Officer)	AM and Team Leader (TL) - DA to attend as necessary	Quarterly then Monthly from July to September	General update plus: March - opinion audit plan June - accounts progress July to September accounts progress September - annual governance report November - annual audit letter
Head of Accountancy	AM and TL	Monthly and weekly during on site periods	Update on audit issues

Sustainability

- 3 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 give us documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as suitable; and
 - reducing travel.