

Audit Opinion Plan

Bromsgrove District Council
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.

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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 my audit work is undertaken in the context of these responsibilities.
- 4 I comply with the statutory requirements governing my audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

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Fee for the audit of financial statements

- 5 My letter of 6 March 2009 detailing the indicative fee for the audit of the financial statements for 2009-10 at £65,590 was reported to you at the Audit Board on the 16 March 2009.
- 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 a number of variables, including the type, size and location of the audited body. Your fee level is 7.1 per cent above the scale fee and is within the normal level of variation specified by the Commission.
- 7 Since the preparation of this estimate other matters have come to my attention which will give rise to additional work and for which an adjustment will be required to the fee. These matters are:
 - Qualification of the 2008/09 financial statements in respect of the capitalisation of expenditure for the spatial project. A retrospective capitalisation direction for this expenditure has been applied for from the central government department and minister and a response is awaited. I will be required to review the details of these items as part of the audit.
 - New financial reporting requirements of the SORP for the reporting of Council Tax debtors and accounting for NNDR.
- 8 The work undertaken on these two matters will be monitored and the additional fee required to cover these areas will be reported to you. I currently estimate a minimum of £4,480. If the capitalisation of the Spatial Project is approved my work will involve reviewing the analysis of expenditure between capital and revenue which the Council is in the process of preparing. Should the capitalisation not be approved considerable work will be required in reviewing the accounting entries.
- 9 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09 in all areas other than those detailed above; and
 - Internal Audit undertakes appropriate work on specified material systems and this is available for my review by 1 February 2010.
- 10 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, I will discuss this in the first instance with the Head of Financial Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

- 11 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Bromsgrove District Council could take to reduce its audit fees

- 12 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, I will work with your officers to identify any specific actions that the Council could take and to provide ongoing audit support.

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Auditors report on the financial statements

- 13 I 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).
- 14 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.
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Identifying opinion audit risks

- 15 As part of my audit risk identification process, I need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I 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

- 16 My letter of 6 March 2009 was issued prior to the completion of the 2008/09 audit. The letter identified a specific risk regarding the introduction of IFRS accounting in Local Government. I have been able to remove this as a specific risk for this opinion audit as the SORP for 2009-10 introduced an element of IFRS which is not applicable to your Council.
- 17 I have considered the on-going risk arising from the qualification of the 2008-9 financial statements due to the accounting treatment of £4.5 million for the Spatial project. For the audit I consider this as a significant risk for the current opinion audit as set out below.

Table 1 Significant risk
Significant opinion risk identified

Risk area	Audit response
Spatial project - determination of the accounting treatment for the expenditure of £4.5 million accounted for in 2008-9 as an intangible asset	Review the response to the capitalisation direction application and the proposed treatment. Review any additional information received from the supplier on the expenditure and any specialist technical advice obtained by the Council on its classification as capital.

- 18 I consider that there is an additional specific risk appropriate to the current opinion audit as set out below.

Table 2 Specific risk
Specific opinion risk identified

Risk area	Audit response
Disclosure of Council Tax debtors and accounting for NNDR in line with the requirements of the SORP	Review the proposed treatment

Identification of specific risks

- 19 From the work undertaken at the opinion planning stage I am aware of the following other matters which will be monitored during the course of the audit. If these result in additional work then I will report these matters to you. These are:
- Redundancies arising from the creation of a Joint management team with Redditch Borough Council.
 - TUPE transfer of ICT members of staff from Redditch Borough Council.
- 20 As reported to you in the 2008/09 Annual Governance Report and 2008/09 Annual Audit Letter weaknesses were found in the payroll system and the system in place for the processing of journals. Both of these weaknesses will be followed up during the audit. Currently we do not anticipate that the testing in these areas will identify a material error in the financial statements and therefore have not classed these areas as specific risks. If the results of my testing result in further additional work then I will report these matters to you.

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Testing strategy

- 21 On the basis of risks identified above I 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.
- 22 My testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 23 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
 - Intangible assets
 - Fixed Assets - additions and disposals.
 - Bank reconciliation.
 - Year-end feeder system reconciliations.

Where other early testing is identified as being possible, this will be discussed with officers.

- 24 Wherever possible, I seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, I expect to be able to use the results of the following pieces of work:
- Reviews of material financial systems of payroll, benefits, NNDR, Treasury Management and Council Tax.

Key milestones and deadlines

- 25 The Council is required to prepare the financial statements by 30 June 2010. I am required to complete my audit and issue my opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 26 I will agree with you a schedule of working papers required to support the entries in the financial statements, building on that used in previous years.
- 27 I will meet with the key contact and review the status of all queries as appropriate depending upon the need and the number of issues arising.

Table 3 **Proposed timetable**

Task	Deadline
Control and early substantive testing	February 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	1 July 2010
Start of detailed testing	1 July 2010
Progress meetings	Weekly or as appropriate
Present report to those charged with governance at the Council	28 September 2010
Issue opinion	30 September 2010

The audit team

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

Table 4 **Audit team**

Name	Contact details	Responsibilities
Elizabeth Cave District Auditor	l-cave@audit-commission.gov.uk 0844 798 7552	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Joan Hill Audit Manager	j-hill@audit-commission.gov.uk 0844 798 7568	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Financial Services.
Jane Matheson	j-matheson@audit-commission.gov.uk 0844 798 7570	Performance Specialist

Independence and objectivity

- 29 I am not aware of any relationships that may affect the independence and objectivity of the audit staff, which I am required by auditing and ethical standards to communicate to you.
- 30 I 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

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

Quality of service

- 32** I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how I can improve my service, please contact me in the first instance. Alternatively, you may wish to contact the Central Region Head of Operations Phil Jones.
- 33** 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.

Planned outputs

- 34** Reports will be discussed and agreed with the appropriate officers before being issued to the Council.

Table 5 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum	November 2010

Appendix 1 – Basis for fee

- 1 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.
- 2 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.

Assumptions

- 3 In setting the fee, I 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 other than for those areas listed in paragraph 7;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes the work on the specified areas and 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 by 30 June 2010;
 - 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.
- 4 Where these assumptions are not met, I will be required to undertake additional 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 Auditing Practices Board (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 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
- 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 appropriate addressee of communications from the auditor to those charged with governance is the Audit Board. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered 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 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.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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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 6 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Head of Financial Services	Audit Manager	March and then monthly June to September	General update plus: March - audit progress June - accounts progress July - initial review of accounts August - audit progress September - annual governance report
Accountancy Services Manager	Team Leader	Quarterly and weekly in July	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 submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.