

2010/11 opinion audit - changes you can expect to see

Oxford City Council

Audit 2010/11

DRAFT

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Purpose of this document

Changes to International Standards on Auditing

1 My audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

2 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

4 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

5 In summary the main changes you will see cover:

- Journals;
- Related Party Transactions;
- Accounting Estimates; and
- Reporting deficiencies in internal control.

Value for money conclusion

6 I no longer give a scored assessment (Use of Resources) of the Council's value for money arrangements. However, I have a continuing statutory responsibility to give a conclusion on whether the Council has proper arrangements for securing value for money (VFM)

7 The Commission has introduced a new, more targeted approach to my local value for money audit work. For 2010/11, my work will cover two criteria:

- Do you have proper arrangements in place for securing financial resilience?; and
- Do you have proper arrangements for challenging how you secure economy, efficiency and effectiveness?

8 In this document I have highlighted the areas in your arrangements that I will review to form a judgement against these criteria.

Impact of the main changes

Journals

9 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals.

Related Party Transactions

10 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

11 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

12 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

13 If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit and Governance Committee as those charged with governance.

New Value for Money Criteria

What do we mean by proper arrangements for securing financial resilience?

14 For our purposes, we see this as referring to arrangements for;

- **Financial governance** - The quality of financial governance and leadership is critical in meeting the financial management challenges and for securing financial resilience. Good basic systems, processes, and controls are important, but it is the overall financial culture that makes the difference.
- **Financial planning** – You need to be setting your budget in the context of a longer-term financial strategy and a medium-term financial plan (MTFP) covering for example, a three-to five-year horizon. The MTFP needs to be realistic. Assumptions around inflation, income levels, demographics, and future demand for services need to be modelled and based on reasonable predictions.
- **Financial control** - councils need to manage within their budgets. You therefore need to challenge your budget monitoring and reporting arrangements to ensure they are fit-for-purpose, and that you can respond to the ever-greater need to demonstrate value for money and achieve efficiencies.

What do we mean by securing economy, efficiency, and effectiveness?

15 We see this as the arrangements you have to prioritise your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

16 You will have to make difficult decisions about priorities, and find more efficient and innovative ways of delivering your responsibilities within the current economic framework. Organisations which have proper arrangements for challenging how they secure economy, efficiency and effectiveness are more likely to be financially resilient and fit for the future.

This includes:

- **prioritising resources** - making sustainable cost reductions, taking a strategic approach to challenging all areas of spend, considering how spending matches the priorities of the organisation and the needs of the people you serve.
- **Improving efficiency and productivity** - Managing the impact of reduced funding on local services as well as on partner organisations and making the best possible use of the total quantum of resources available.