

# Audit opinion plan

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.**

# Contents

<b>Introduction</b> .....	<b>2</b>
<b>Responsibilities</b> .....	<b>3</b>
<b>Fee for the audit of financial statements</b> .....	<b>4</b>
Specific actions Oxford City Council could take to reduce its audit fees .....	5
<b>Auditors report on the financial statements</b> .....	<b>6</b>
Materiality .....	6
Identifying opinion audit risks .....	6
<b>Identification of specific risks</b> .....	<b>7</b>
Value for money risks .....	7
<b>Testing strategy</b> .....	<b>8</b>
<b>Value for money conclusion</b> .....	<b>9</b>
<b>Key milestones and deadlines</b> .....	<b>10</b>
<b>The audit team</b> .....	<b>11</b>
Independence and objectivity .....	11
Meetings .....	11
Quality of service .....	11
Planned outputs .....	12
<b>Appendix 1 Basis for fee</b> .....	<b>13</b>
Assumptions .....	13
<b>Appendix 2 – Independence and objectivity</b> .....	<b>14</b>
<b>Appendix 3 – Working together</b> .....	<b>16</b>
Meetings .....	16
Sustainability .....	16
<b>Appendix 4 Glossary</b> .....	<b>18</b>

# Introduction

## **This plan sets out the audit work I propose for the audit of financial statements and the value for money conclusion 2010/11.**

1 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 2010/11;
- current national risks relevant to local circumstances; and
- local risks.

DRAFT

# Responsibilities

**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 to every audited body.**

**2** The Statement summarises where the responsibilities of auditors and of the audited body begin and end. I undertake my audit work to meet these responsibilities.

**3** I comply with the statutory requirements governing our audit work, especially the Audit Commission Act 1998, and the Code of Audit Practice.

DRAFT

# Fee for the audit of financial statements

## **The fee for the audit is £200,000, as indicated in my letter of 9 April 2010.**

4 The Audit Commission fee for the Council is set at £200,000 which is 12.5% above the scale fee. The fee does represent a significant decrease from the prior year. It is based on the assumption that the issues with the financial statements in previous years are addressed.

5 The Commission confirmed earlier this year that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting standards (IFRS) for local authorities from 2010/11. The Council received a rebate of £10,700 direct from the Audit Commission in April 2010 and besides this the Commission is proposing to rebate 1.5 per cent of the scale fee for district council audit fees in 2010/11.

6 On 10 December 2010, the Audit Commission wrote to all audited bodies setting out its proposed work programme and scales of fees for 2011/12. This proposes decreases in audit fees of between 5 and 20 per cent in 2011/12, reflecting both the new approach to local VFM audit work and a decrease in the continuing audit costs associated with the introduction of IFRS. Once the consultation period has ended I will inform you of the outcomes.

7 In setting the fee, I have assumed that:

- the risk rating for the audit of accounts is improved;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers for the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems which is available for our review by 31 January 2010.

8 Where these assumptions are not met, I will need to do extra work which is likely to increase the audit fee. If this is the case, I will discuss this first with the Corporate Director Finance & Efficiency and issue audit plan supplements which will show changes to the risk assessment and the fee impact.

9 Further information on how I arrive at the fee is in Appendix 1.

## Specific actions Oxford City Council could take to reduce its audit fees

10 The Audit Commission requires its auditors to inform audited bodies of specific actions which ensure an efficient audit can be delivered. I will work with staff to identify these and to provide continuing audit support. Improvement in the production of the final accounts and supporting working papers is reflect in the audit fee and we will continue to work with your finance team to seek more improvements. Further reductions could be made if the recommendations in our Annual Governance Report were implemented. Key recommendations included:

- Continue the work to improve fixed asset accounting and management with finance and estates working together;
- Improve the lay out of the bank reconciliation. The completion and review of this reconciliation should be done regularly and evidenced; and
- Evidence the operation of internal control and in particular ensure that reconciliations are signed off as evidence of the review and reconciling items cleared regularly and not carried forward from one reconciliation to the next.

DRAFT

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** 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 2011.

### **Materiality**

**12** I will apply materiality in both planning and performing the audit, in deciding on the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**13** I need to understand the audited body well to identify any risk of material misstatement (because of either fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing its own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment (including IT) and Internal Audit; and
- assessing the risk of material misstatement arising from activities and controls within information systems.



# Identification of specific risks

**I have considered the additional risks appropriate to the current opinion audit and set them out below.**

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
International Financial Reporting Standards (IFRS).	Like other local government authorities, the Council must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place. We will monitor progress of the plan against deadlines for financial reporting in 2010/11. Members need to ensure that they understand the significance of these changes and how these are being addressed.
Accounts close down and accurate preparation of the financial statements	While there was improved performance in 2009/10 I still identified some errors in the accounts and with fixed assets in particular. In addition I made recommendations for improvements which the Council needs to address.
The government's Spending Review which requires every council across the country to make large financial savings.	The Council has been expecting the Spending Review. It has made plans to make significant savings through its Medium Term Financial Strategy and is working in partnership with other local public bodies.

## Value for money risks

**14** I will undertake my risk assessment for the value for money conclusion later in the year. I will discuss it with you when I have done so.

# Testing strategy

**I will produce a testing strategy based on the risks identified. This will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**15** I can carry out the testing before or after you have produced the draft financial statements (pre- and post-statement testing).

**16** Where 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 I could carry out early substantive testing:

- Review of accounting policies and estimates;
- Bank reconciliation;
- Movements in reserves;
- Council tax and NNDR opening debit;
- Property, plant and equipment - ownership;
- Investments – ownership; and
- Year-end feeder system reconciliations.

Where I identify other possible early testing, I will discuss it with officers.

**17** I will rely on Internal Audit's work to help meet my responsibilities where possible. For 2010/11, I expect to be able to use the results of the following pieces of work:

- General Ledger;
- Creditors;
- Payroll;
- Council Tax and Nation Non-Domestic Rates;
- Car parking;
- Housing Rents;
- Housing Benefits;
- Treasury management;
- Collection Fund; and
- Fixed Assets.

**18** I will also rely on the work of other auditors and experts to meet my responsibilities where possible. For 2010/11, I plan to rely on the work of other auditors for the Pension Fund managed by Oxfordshire County Council.

**19** I also plan to rely on the work of the following experts:

- Property valuer; and
- Pension fund actuary

# Value for money conclusion

## **I am required to give a statutory Value for Money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**20** The Commission has specified two criteria, related to the Council arrangements for:

- securing financial resilience – whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**21** I will plan a programme of value for money audit work based on my risk assessment.

DRAFT

## Key milestones and deadlines

**The Council must prepare the financial statements by 30 June 2011. I must complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

22 The key stages in producing and auditing the financial statements are in Table 2.

23 I will agree with you a schedule of working papers to support the entries in the financial statements. The agreed fee depends on the timely receipt of accurate working papers.

24 During the audit, the audit team will meet the key contacts and review the status of all queries. This will be weekly or as required, depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	March 2011
Receipt of accounts and working papers ready for audit sample selection	30 June 2011
On site audit work starts	11 July 2011
Start of detailed testing	July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

**Table 3 shows the key members of the team for the 2010/11 audit.**

Table 3: **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Maria Grindley District Auditor	m-grindley@audit-commission.gov.uk 0844 798 8952	Responsible for overall delivery of the audit including the quality of reporting, signing the opinion and conclusion, and liaison with the Chief Executive and Audit and Governance Committee.
Alan Witty Audit Manager	a-witty@audit-commission.gov.uk 0844 798 8956	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Finance & Efficiency and Audit and the Finance Team.

## Independence and objectivity

**25** I am not aware of any relationships affecting the independence and objectivity of the District Auditor or the audit staff, which I am required by auditing and ethical standards to communicate to you.

**26** I comply with the APB ethical standards and the Audit Commission's requirements for independence and objectivity see Appendix 2.

## Meetings

**27** The audit team will ensure we are up-to-date on your issues through meeting key officers regularly. This will inform our risk-based audit. Appendix 3 sets out my proposals.

## Quality of service

**28** I aim to provide you with a fully satisfactory audit service. However if you are unable to deal with any difficulty through me or my team, please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk). He will look into any complaint promptly and to do what he can to resolve the position.

29 If you are still not satisfied, you may of course take the matter up with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

30 My team will discuss and agree reports with the appropriate officers before issuing them to the Audit and Governance Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Opinion Plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Annual audit letter	November 2011

DRAFT

# Appendix 1 Basis for fee

The Audit Commission targets its work for greatest effect, based on risk and performance assessments. This means that we plan our work to address risks relevant to our audit responsibilities, and the audit fees reflect this.

The risk assessment starts by identifying significant financial and operational risks which apply to the Council, referring to:

- cumulative audit knowledge of the Council;
  - Audit Commission planning guidance;
  - specific results of previous and current audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

## Assumptions

In setting the fee, I have assumed that:

- the level of risk for the audit of the financial statements is improved;
- the fee for the value for money conclusion is the same as for 2009/10;
- you will inform me of significant developments which have an impact on the audit;
- Internal Audit meets appropriate professional standards;
- Internal Audit undertakes enough appropriate work on all systems providing material figures in the financial statements for me to place reliance on it for my purposes;
- you provide:
  - good quality working papers and records to support the financial statements by 11 July 2011;
  - requested information within agreed timescales;
  - prompt responses to draft reports;
- no extra work is needed to address questions or objections from local government electors.

Where these assumptions are not met, I must undertake extra work which is likely to increase the audit fee.

## Appendix 1 – 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 and Governance Committee. 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 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 for 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.

DRAFT

## Appendix 2 – Working together

### Meetings

8 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

9 Our proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Interim Head of Finance and his team	Audit Manager and Team Leader	Fortnightly	General update on audit issues including for example: January – Progress on IFRS restatement March – progress on interim audit July and August- accounts progress September - annual governance report October – final accounts “wash up”.
Director of Finance and Efficiency	District Auditor and Audit Manager	Quarterly	Update on audit issues including: audit plan annual governance report: and key messages for Annual Audit Letter
Audit and Governance Committee	District Auditor and Audit Manager	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual Audit Letter Other issues as appropriate

### Sustainability

10 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.

DRAFT

## Appendix 4 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body summarising audit work carried out in the period, auditors' opinions or conclusions where appropriate, and significant issues arising.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all auditors' work done in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission appoints the external auditor. It comprises both members of the body and its management (the senior officers). Those charged with governance are its members (see also 'Members' and 'Those charged with governance').

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing and ethical standards and other guidance to auditors. It aims to establish high audit standards to meet the developing needs of those who use financial information, and to ensure public confidence in the auditing process.

### **Auditing standards**

APB pronouncements containing basic principles and essential procedures. Auditors must comply with them, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB containing basic principles for the conduct of audits. Auditors must comply with them, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies must prepare. These summarise their accounts in accordance with regulations and proper accounting practices.

## **Internal control**

The whole system of financial and other controls to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines materiality as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Appointed auditors have other responsibilities and duties under statute which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' refers to these wider responsibilities. Auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance may be either qualitative or quantitative.

## **Members**

The elected or appointed members of local government bodies, responsible for their overall direction and control (see also 'Those charged with governance' and 'Audited body').

## **Regularity (of expenditure and income)**

Whether (subject to materiality) the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Remuneration report**

Audited bodies must produce a remuneration report showing the salary and pension entitlements of senior managers. They must publish it with the financial statements.

## **Annual Governance Statement**

Local government bodies must publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The body's assurance framework supports and evidences the disclosures in the SIC. At local authorities the SIC is called the Annual Governance Statement and prepared in accordance with CIPFA guidance.

## **Those charged with governance**

Auditing standards define those charged with governance as 'those persons entrusted with the supervision, control and direction of an entity'.

Those charged with governance in local government are: the full council, audit committee, or other committee with delegated responsibility for approving the financial statements.

Audit committees are only mandatory for police authorities and local probation trusts. Other local government bodies should have proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that the audited body considers these matters, and auditors' reports, at the most appropriate level.

## **Whole of Government Accounts**

Whole of Government Accounts aims to produce a single set of financial accounts for the entire UK public sector, based on commercial accounting principles. Local government bodies, apart from probation boards and trusts, must submit a consolidation pack to the department for Communities and Local Government based on, but separate from, their statutory accounts.