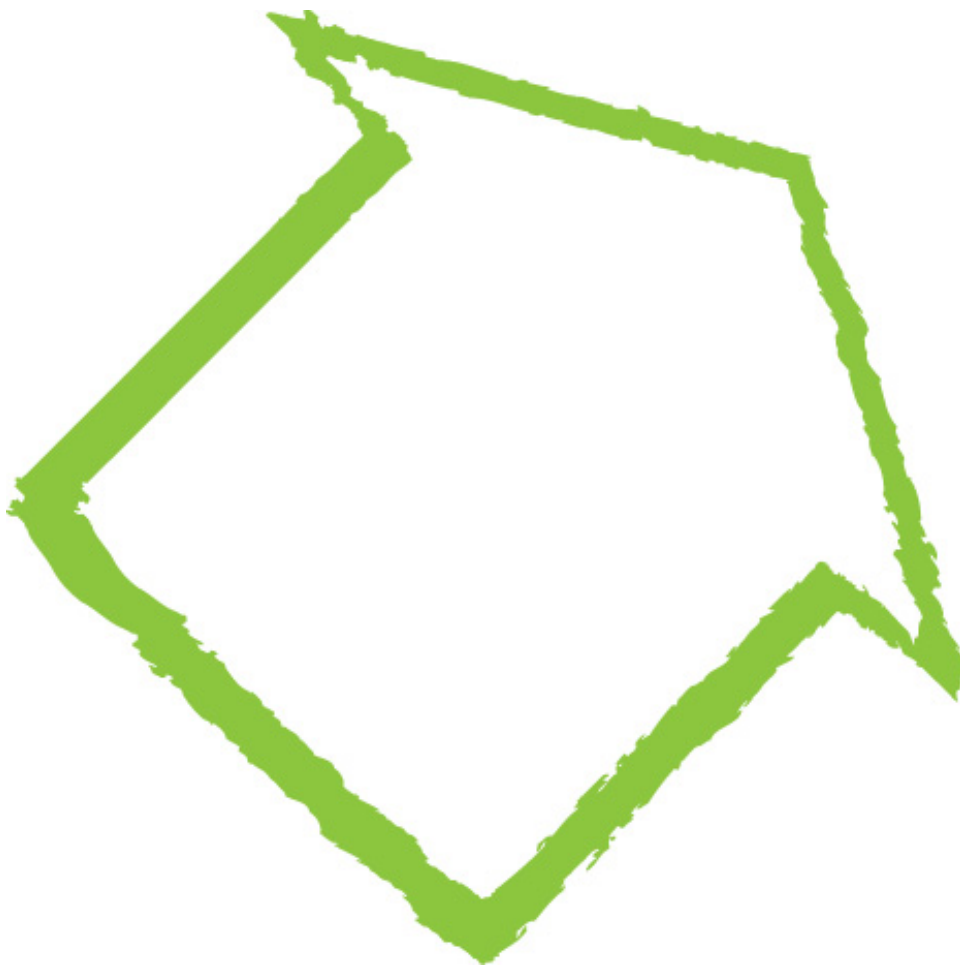


Audit Opinion Plan

South Ribble Borough 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 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 In our initial audit fee letter for 2009/10 (issued in April 2009), we outlined the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. Professional auditing standards require us to specify the detailed risks that we need to consider as part of our opinion audit work. Having completed our work in relation to the Council's 2008/09 financial year, we are now able to set out in detail the risks and associated audit work we propose to undertake in relation to 2009/10.
- 2 For our 2009/10 opinion audit, we are required to:
 - identify the risk of material mis-statements in your accounts;
 - plan audit procedures to address those risks; and
 - ensure that the audit complies with all relevant auditing standards.
- 3 The rest of this document sets out our approach to identifying opinion audit risks and the work which is planned to address those risks.

Responsibilities

- 4 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.
- 5 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.
- 6 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Identifying opinion audit risks

Organisational level risks

- 7 As part of our audit risk identification process, we need to understand fully the Council to identify any risk of material mis-statement (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 Council's financial performance; and
 - assessing internal control, including reviewing the control environment, the IT control environment and Internal Audit.

Information system risks

- 8 To comply with ISA (UK & I) 315, we need to assess the risk of material mis-statement arising from the activities and controls within the Council's information systems. To be able to assess these risks we need to identify and understand the material systems, and document that understanding.
- 9 Material systems are those which generate material figures in the annual financial statements. We have identified that the Council has ten material systems. For these systems we need to demonstrate our understanding by documenting the following:
- how transactions are initiated, recorded, processed and reported in the financial statements;
 - the accounting records relevant to the transactions;
 - how the Council identifies and captures events and conditions which are material to the financial statements, eg depreciation; and
 - the financial reporting process used to prepare the financial statements.

Identification of specific risks

- 10 We have considered the specific risks that are appropriate to the current opinion audit for South Ribble Borough Council and have set these out below.

Table 1 Specific Risks

Specific opinion risks identified

Risk Area	Audit Response
Changes to SORP disclosure requirements	Our audit will include specific testing around the new requirements for accounting for council tax and NNDR income and the changed disclosures required for senior officer's remuneration.
The Council will continue to face increased financial pressures linked to the economic downturn.	We will continue to review the Council's plans for monitoring and managing the financial position as part of our Use of Resources assessment. We will also conduct sample testing of transactions before and after the year end to confirm that they have been appropriately charged to the correct year of account.
2010/11 will see the implementation of international financial reporting standards to local government accounts. This will require forward planning to ensure that the required information is available to enable an efficient transition to the new financial reporting requirements. Elements of the new requirements relating to accounting for PFI schemes and similar arrangements are required to be implemented within the 2009/10 accounts.	We are liaising with key finance staff on the key changes required and the plans in place to address them. We will share any 'good' practice or other sources of advice as they become available. Based on knowledge to date we do not expect the Council to need to implement any of the required changes in the 2009/10 accounts.

Testing Strategy

- 11 On the basis of risks identified overleaf, 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 the year end.
- 12 Our testing can be carried out both before and after the draft financial statements have been produced (pre and post statement testing).
- 13 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We are completing early testing of fixed assets around existence and rights and obligations and on investments. Where other early testing is identified as being possible, this will be discussed with officers.
- 14 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of internal audit testing relating to some specific controls in major financial systems, namely payroll, creditors and debtors, as well as controls over manual journals.

Key milestones and deadlines

- 15 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.
- 16 We will agree with you a schedule of working papers required to support the entries in the financial statements.

Table 2 **Proposed Timetable**

Task	Deadline
Systems documentation and controls testing	April 2010
Early substantive testing	May 2010
Receipt of accounts	June 2010
Start of final accounts audit	July 2010
Progress meetings during final accounts audit	Weekly
Present report to those charged with Governance (Governance Committee)	September 2010
Issue Opinion	September 2010

The audit team

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

Table 3 **Audit team**

Name	Contact details	Responsibilities
Fiona Blatcher Engagement Lead	f-blatcher@audit-commission.gov.uk 0844 798 7056	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Gareth Winstanley Audit Manager	g-winstanley@audit-commission.gov.uk 0844 798 7005	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director (Resources).
Peter Buckley Team Leader	p-buckley@audit-commission.gov.uk	Manages the day to day delivery of the audit work.

Independence and objectivity

- 18 A member of staff involved in the delivery of the Use of Resources assessment has declared a relationship that could affect their independence. This independence issue has been addressed by making arrangements for other members of staff to complete the work in the affected areas of the assessment.
- 19 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

- 20 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.

Quality of service

- 21** 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 in the first instance. Alternatively, you may wish to contact Terry Carter, North West Head of Operations at t-carter@audit-commission.gov.uk.
- 22** 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

- 23** Reports will be discussed and agreed with the appropriate officers before being issued to the Governance Committee.

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	April 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum (if required)	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.
- 3 The fee for the audit of the financial statements is £54,878 as indicated in my letter of 29 April 2009.

Assumptions

- 4 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;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - 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.
- 5 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. If such an increase is required, I will first discuss this with the Corporate Director (Resources) and then prepare a report to the Governance Committee outlining the reasons.

Specific actions the Council could take to reduce its audit fees

- 6 The Audit Commission requires its auditors to inform audited bodies of specific actions they could take to reduce its audit fees. As in previous years, we will work with staff to identify any such actions that the Council could take.

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 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 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 Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The Engagement lead 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 Engagement Lead and members of the audit team must abide by 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
Chief Executive	Engagement Lead (EL) and Audit Manager (AM)	Quarterly	General update in February plus: <ul style="list-style-type: none"> • April - audit plan • July - accounts progress and VFM • November - Annual Audit Letter
Corporate Director (Resources)	AM	Quarterly	General update including planning, opinion and Use of Resources
Head of Shared Financial Services	AM and Team Leader (TL)	Weekly during final accounts audit, quarterly at other times	Update on audit and opinion issues
Head of Shared Assurance Services	AM and/or TL	Quarterly	Update on audit progress and issues
Other Directors	AM or TL	As appropriate	Update on Use of Resources or specific issues
Governance Committee	EL and AM	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan • Annual Governance Report • Other issues as appropriate

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.

The Audit Commission

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.

Copies of this report

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