

# Audit Fee and Opinion Plan

Chorley and South Ribble Shared Services Joint  
Committee

Audit 2008/09 & 2009/10

June 2009 - updated December 2009

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# Contents

<b>Introduction</b>	<b>3</b>
<b>The fee</b>	<b>4</b>
<b>Identifying opinion audit risks</b>	<b>5</b>
<b>Identification of specific risks</b>	<b>7</b>
<b>Value for money conclusion</b>	<b>8</b>
<b>Key milestones and deadlines</b>	<b>9</b>
<b>The audit team</b>	<b>10</b>
<b>Links to useful documents</b>	<b>11</b>

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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 During 2008/09 Chorley and South Ribble Borough Council agreed to collaborate in the provision of certain administrative services across both the Councils. Initially the agreement relates to the provision of financial and assurance services. The Councils agreed to arrange for a Joint Committee to discharge their governance functions of providing these services and the Chorley and South Ribble Shared Services Joint Committee was formed on 5 January 2009.
- 2 Under section 3 of the Audit Commission Act 1998, the Commission is required to appoint an auditor to audit the accounts of certain local government bodies, including Joint Committees. At its meeting on 4 March 2009, the Audit Commission Board approved the appointment of Fiona Blatcher, of the Audit Commission's in-house practice, as appointed auditor for Chorley and South Ribble Shared Services Joint Committee.
- 3 Since the expected full year expenditure of the Joint Committee is expected to exceed £1million, a full code of practice audit is required. This entails an opinion on the financial statements of the Joint Committee together with a conclusion on its arrangements to achieve economy, efficiency and effectiveness, (the value for money conclusion).
- 4 A review of the detailed collaborative agreement between the two councils has been undertaken to assess the need for a full code of audit practice in conjunction with the Audit Commission's audit policy and appointment's team. The nature of the agreement is such that the Joint Committee does have delegated powers to act on behalf of the two councils and as such is an 'executive committee'. In this context the accountability requirements envisaged within the Accounts and Audit regulations and the Audit Commission Act do apply and a full code audit is required.

# The fee

- 5 The audit fee has been determined based on our initial assessment of the work required to complete a code of practice audit for the Joint Committee. This is based on present understanding of how the Joint Committee will operate and its arrangements for compiling its accounts. Our assessment may change as we actually carry out the audit. In addition, the nature and scope of the services discharged by the Joint Committee may also change over time. If, in our view, any of these changes requires a change in the audit fee we will discuss this with the Treasurer to the Joint Committee and will report any changes to the Joint Committee.
- 6 The following table sets out our planned fee for completion of the 2008/09 audit and the 2009/10 audit.

**Table 1      Audit Fee**

	<b>2008/09</b>	<b>2009/10</b>
	<b>£</b>	<b>£</b>
<b>Opinion audit</b>	9,900	6,645
<b>VFM conclusion</b>	2,000	1,000
<b>Total audit fee</b>	11,900	7,645

- 7 The fee for 2008/09 of £11,900 is higher than 2009/10 due to more work being needed for this first period of audit to develop our understanding of the governance arrangements for the Joint Committee and the preparation of its accounts.
- 8 Our proposed fee for 2009/10 of £7,645, 20% less than the scale fee of £9,630 calculated using the Audit Commission's methodology. This reflects the level of work we need to do to meet the code requirements. It takes into account the current nature of the Joint Committee's operations and accounts and recognises the extent to which we expect to be able to rely upon work undertaken at the two councils on their accounts and use of resources assessments.

## Specific actions the Joint Committee could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. Following completion of the 2008/09 audit we have reviewed the work needed for 2009/10 and have re-assessed the fee needed, reducing it from an original figure of £9,745 to £7,645. We do not believe there is anything the joint committee could do which would help reduce the fee any further.

# Identifying opinion audit risks

**10** We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. We are required to:

- identify the risk of material misstatements in your accounts;
- plan audit procedures to address these risks; and
- ensure that the audit complies with all relevant auditing standards.

**11** We have therefore set out below our approach to identifying opinion audit risks and have considered the risks that are appropriate to the current opinion audit.

Following completion of the 2008/09 audit we will re-assess the opinion risks for 2009/10 and will report these to the Joint Committee closer to the commencement of the 2009/10 audit.

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## Organisation level risks

**12** As part of our audit risk identification process we need to fully understand 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 Joint Committee, including assessing your own risk management arrangements;
- considering the financial performance of the Joint Committee; and
- assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

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## Information system risks

**13** To comply with ISA (UK&I) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Joint Committee information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.

**14** Material systems are those which produce material figures in the annual financial statements. Our understanding is that the Joint Committee will not be operating any separate financial systems beyond those already operated by the two Councils. We will plan and perform our work around the financial systems of the two Councils to provide assurance for the accounts of the Joint Committee. The key information 'system' we will need to understand is the way in which the Joint Committee's accounts are compiled from the financial data supplied by the two host councils.

**Assertions**

**15**When considering the risk of material misstatement we consider what the Treasurer is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a 'presents fairly' view of the nature and activity of the Joint Committee for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

**16**These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- Revenue items;
- Balance Sheet items; and
- Disclosures and presentational elements of the financial statements.

**17**The following table details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

**Table 2    The Assertions**

Meaning	Fund Account	Balance Sheet	Disclosure
Is it recorded at the right amount and are the details right?	Accuracy		Accuracy
Is it in the right place in the accounts?	Classification		Classification
Is it all there?	Completeness	Completeness	Completeness
Is it in the right year?	Cut-off		
Is it real, does it exist?		Existence	
Has it happened?	Occurrence		Occurrence
Does it belong to the body? Are they entitled to use it?		Rights and Obligations	Rights and Obligations
Is it worth it?		Valuation and Allocation	Valuation and Allocation

# Identification of specific risks

**18**We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 3**      **Specific risks**  
Specific opinion risks identified

<b>Risk Area</b>	<b>Assertions</b>	<b>Audit response</b>
<i>The Joint Committee is a newly formed body and 2008/09 is the first year for which it will compile accounts</i>	<i>All</i>	<i>We will undertake sufficient work to document and understand the systems of the Joint Committee and the business risks it must address</i>

## Testing strategy

- 19**The Joint Committee delivers its operational activities through the financial and assurance services and systems operated by its host councils. Therefore, where possible, we will seek to secure efficiencies by gaining assurance from the work we have completed as part of our audit at Chorley and South Ribble Councils.
- 20**An essential element of our audit will to be document, understand and substantively test the process by which the Joint Committee compiles its accounts from the financial data from Chorley and South Ribble Councils.

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# Value for money conclusion

- 21** Under the Code of Audit Practice (the Code), auditors are required to give a value for money (VFM) conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements and the way in which auditors will undertake their work is set out in Section 3 of the Code. The auditor's VFM conclusion is informed, and limited, by reference to 'relevant criteria' covering specific aspects of audited bodies' arrangements, specified by the Commission in accordance with the Code.
- 22** The Audit Commission has decided that auditors of smaller local government bodies, such as Joint Committees, will apply a proportionate approach to arriving at their VFM conclusion, in accordance with the relevant guidance.
- 23** This guidance is based on a restricted set of Key Lines of Enquiry from our Use of Resources assessments. It includes the characteristics of performance that auditors might expect to see to give a 'yes' judgement. The characteristics are not intended to be prescriptive, nor used as a 'checklist' to arrive at a judgement for the VFM conclusion. They are intended to be indicative of the types of arrangements and outcomes that audited bodies might provide as evidence to support performance for the criteria. A link to the detailed guidance is included at page 11. The VFM conclusion will be restricted to consideration of the following areas:
- Understanding costs and achieving efficiencies
  - Financial reporting
  - Good governance
  - Risk management and internal control.



# Key milestones and deadlines

**24** The Joint Committee is required to prepare the financial statements by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. The key stages in the process of producing and auditing the financial statements are shown in Table 4.

**25** We will agree with you a schedule of working papers required to support the entries in the financial statements.

**26** We will meet with the key contact and review the status of all queries during the course of the audit. The frequency of meetings will depend upon the need and the number of issues arising.

**Table 4 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Receipt of accounts	30 June 2009
Forward of audit working papers to the auditor	early July 2009
Start of detailed testing including value for money conclusion	Mid July 2009
Progress meetings	As required
Issue of opinion and value for money conclusion	By 30 September 2009
Issue of annual governance report	By 30 September 2009
Issue of annual letter	November 2009

# The audit team

**27** The key members of the audit team for the 2008/09 audit are shown in the table below.

**Table 5**      **Audit team**

Name	Contact details	Responsibilities
Fiona Blatcher Engagement lead		Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion.
Peter Buckley Team Leader		Manages and coordinates the different elements of the audit work.

## Quality of service

**28** 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 the North West Region Head of Operations.

**29** 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.

# Links to useful documents

- The Code of Practice define the scope, nature and extent of local audit work and can be found at:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codeofauditpractice.aspx>

- Statement of responsibilities of auditors and audited bodies summarises where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It can be found at:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

- Detailed guidance in relation to the VFM conclusion for small bodies can be found at:

<http://www.audit-commission.gov.uk/SiteCollectionDocuments/MethodologyAndTools/Guidance/VFMconclusioncriteriaother.pdf>