

# Audit Opinion Plan

Central Bedfordshire 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

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- 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

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- 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 our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our 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

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- 5 The indicative fee for the audit is £323,000, this is the same fee as was stated in Debbie Hanson's letter of 22nd May 2009. However, I may have to reassess this fee if further work is required as a result of the risk areas set out in Table 1, below. 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.
- 6 The Audit Commission scale fee for Central Bedfordshire Council is £292,005. The fee proposed for 2009/10 is 10.6 per cent above the scale fee and is within the normal level of variation specified by the Commission.
- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified when we set our indicative fee in May 2009;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - you will inform us of significant developments impacting on the audit; and
  - the Council will supply good quality working papers, at the start of the audit, to support the 2009/10 financial statements.
- 8 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, we will discuss this in the first instance with the Director of Customer and Shared Services and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

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## Specific actions Central Bedfordshire Council could take to reduce its audit fees

- 10 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, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.
- 11 We meet with Internal Audit (IA) on a regular basis and are working together to ensure that there is no duplication of work and that their work on the financial systems is

complementary to ours. In order to comply with the International Standard on Auditing (UK and Ireland) 315 we are required to document all systems which create a material figure in the accounts and understand and document how transactions flow through the information system, that is 'walkthrough' a transaction. IA plan their work on the Council's material systems to assist us in this.

- 12 IA had planned that their walkthroughs of the Council's key financial systems would be complete by the end of January 2010 so that we could rely on their work in carrying out our own work, planned for February and March 2010. However, not all of the IA work was available at this time, due to IA capacity and the availability of staff across the Council. Therefore we have carried out our own walkthroughs on some of the systems.
- 13 To enable us to place reliance on work carried out by IA their work must comply with our own audit approach. While we have been able to use the work that IA have carried out we have had to raise additional queries and have asked IA to carry out additional work to ensure that the same transaction has been documented through the information system, from initiation to appearing in the financial statements. We will continue to work with IA to ensure that their approach to the managed audits is complementary to our own audit approach.

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# Auditors report on the financial statements

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- 14 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).
- 15 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

- 16 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 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 information systems.

# Identification of specific risks

17 We have considered the additional risks that are appropriate to the current opinion audit as set out in Table 1.

**Table 1 Specific opinion risks identified**

Risk area	Audit response
<p>The Council has faced considerable budget pressures in 2009/10. The 2010/11 budget has been set on the basis that the outturn for 2009/10 will be a break even position.</p> <p>This increases the risk of manipulation of income and expenditure by overstating income and understating spending to remain within budgets for 2009/10.</p>	<p>We will continue to monitor the Council's financial health.</p> <p>We will target our cut off testing for the 2009/10 financial statements on expenditure incorrectly excluded from the 2009/10 accounts and income wrongly included within them. We will also target our testing to look for missing spending and creditors and overstated income and debtors.</p>
<p>Our work on the Council's financial systems, informed by the work of Internal Audit, has identified weaknesses in the operation of controls in a some systems in particular the following controls were found to have lapsed in the Payroll system:</p> <ul style="list-style-type: none"> <li>- monthly reconciliations between HR and FI records had not been carried out since June 2009. The purpose of this reconciliation is to perform headcount reconciliation between the establishment held on SAP HR and financial postings made in the SAP Finance (FI) module. This reconciliation had not been undertaken since June 2009, and</li> <li>- sample checks on all changes made via SAP changes reports (i.e. starters and leavers) had not been sample checked by the HR Operations Manager since July 2009.</li> </ul>	<p>If we unable to rely on controls having been in place in these systems throughout the year we will have to carry out substantive testing to enable us to conclude that the financial statements are not materially misstated.</p> <p>If we are unable to carry out an accurate predictive Analytical Review on the payroll figure in the accounts, which is a risk as 2009/10 is the first year of operation for this Council; we will need to test a sample of payroll payments, in accordance with our audit approach. Our initial calculations suggest that we would need to test approximately 80 payments.</p> <p>This would require additional work above that planned in our initial fee.</p>
<p>The new Council has had to bring together three asset registers, to form the Central Bedfordshire Asset</p>	<p>We will review and test the new asset register to ensure that asset details have been transferred correctly and that it is complete.</p>



## Identification of specific risks

Risk area	Audit response
<p>Register. This includes the housing stock from South Bedfordshire District Council (SBDC) with over 5,000 properties and a large number of schools from Bedfordshire County Council.</p>	
<p>Bedfordshire CC (BCC) entered into a long term PFI (Public Finance Initiative) contract for two schools in December 2003. The Council need to ensure that the accounting treatment of this scheme is consistent with the requirements of International Financial Reporting Standard IFRIC12.</p>	<p>We will review the Council's accounting treatment of this scheme to ensure that it complies with IFRIC 12.</p> <p>We will have to seek further advice from our Technical Unit to assist with this. This may result in additional fee.</p>
<p>We reported in the Central Bedfordshire Annual Audit Letter, in December 2009, that there had been a number of amendments to the SBDC 2008/09 accounts in respect of accounting for the HRA and that Accounting correctly for capital will be a major challenge for the new Council.</p> <p>Capital accounting is a particularly complex area for local government accounting and there are specific rules for HRA assets.</p>	<p>We have monthly meetings with the Chief Accountants Team to discuss accounting issues and we will continue to review the accounting treatment of capital to ensure that there are no material errors.</p>
<p>The opening balances of the new Council will comprise the closing balances of Mid Bedfordshire (MBDC) and SBDC and the Central Bedfordshire proportion of the disaggregated BCC balance sheet.</p>	<p>We will be reviewing the Council's opening balances; this will include a review of the disaggregation of the BCC balance sheet as at 31 March 2009.</p>
<p>Following the recent restructure at the Council the role of Chief Financial Officer (CFO) is no longer on the Corporate Management Team.</p> <p>The CFO occupies a critical position to ensure that resources are used wisely in order to secure positive results and influence the financial</p>	<p>We will review the arrangements in place in comparison with the CIPFA Statement on the Role of the CFO in Public Service Organisations.</p>

Risk area	Audit response
direction of the Council.	
<p>The audits of the MBDC and SBDC housing benefits claims in 2008/09 were problematic and both claims were subject to qualification reports.</p> <p>We expect to have to carry out additional work on the SBDC 2008/09 claim as we reported to the Department of Works and Pensions (DWP) that there were a number of cells where we were unable to reach a conclusion or quantify the error. The DWP is likely to require us to complete further work to reach an opinion on these cells.</p>	<p>We will carry out additional audit work as required by the DWP. This will result in additional fees in respect of grant claim work.</p>

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# Testing strategy

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- 18 On the basis of risks identified above 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 year end.
- 19 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 20 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. In discussion with officers we have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
  - Investments – ownership.
  - Review of opening balances.
  - Fixed asset additions and disposals.
  - Members' allowances.
  - Review of Register of Members Interests.

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

- 21 As already noted in paragraph 10, wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

# Key milestones and deadlines

- 22** 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.
- 23** We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 24** Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

**Table 2 Proposed timetable**

Task	Deadline
Control and early substantive testing	31 March 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
Present report to those charged with governance at the Audit committee	28 September 2010
Issue opinion	By 30 September 2010

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# The audit team

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

**Table 3**      **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Paul King District Auditor	paul-king@audit-commission.gov.uk 0844 798 5811	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Cathy O'Carroll Audit Manager	c-ocarroll@audit-commission.gov.uk 0844 798 5830	Manages and coordinates the different elements of the audit work. Key point of contact for the Interim Chief Accountant and Head of Corporate Finance.
Heather Rothwell-Trickett Team Leader	h-rothwell-trickett@audit-commission.gov.uk 0844 798 5503	Responsible for day-to-day supervision of the audit team. Key point of contact for the Interim Chief Accountant.

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## Independence and objectivity

- 26 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 27 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.

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## Meetings

- 28 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.

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### Quality of service

- 29** 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 the Eastern Sub-region Head of Operations, Andy Perrin on [a-perrin@audit-commission.gov.uk](mailto:a-perrin@audit-commission.gov.uk).
- 30** 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.

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### Planned outputs

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

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**Table 4**      **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	28 September 2010
Auditor's report giving an opinion on the financial statements	by 30 September 2010
Final accounts memorandum	November 2010

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# Appendix 1 – Basis for fee

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- 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.

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## 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 when we set our indicative fee in May 2009;
  - you will inform us of significant developments impacting on the audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all 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 1 July 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.

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# Appendix 2 – Independence and objectivity

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- 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.



## Appendix 2 – Independence and objectivity

- 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 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Head of Corporate Finance and Interim Chief Accountant.	AM and Team Leader (TL)	Monthly	General update plus: March - audit plan July - accounts progress September - annual governance report
Head of Internal Audit and AD Audit and Risk.	AM and TL	Monthly	General update plus: March - audit plan July - accounts progress September - annual governance report
Director of Customer and Shared Services	DA and AM	Quarterly	General update
Audit Committee	DA and AM	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as necessary

## 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 suitable; and
  - reducing travel.