

Audit opinion plan

Central Bedfordshire Council

Audit 2010/11

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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Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2010/11. 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 your local circumstances; and
- your local risks.

Responsibilities

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.

Fee for the audit of financial statements

The fee for the audit is £342,380 which is the same as that set out in my letter of 22 March 2010.

5 The indicative fee for the audit is £342,380. 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 this Council is £316,923. The fee proposed for 2009/10 is 8 per cent above the scale fee and is within the normal level of variation specified by the Commission.

7 The Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed until December 2010 with a 7 January 2011 response date.

8 The proposals included a further rebate to local authorities of 3.5 per cent of the 2010/11 scale fee, which would equate to some £11,090 for the Council. This is in addition to the rebate of £19,000 made by the Audit Commission in April 2010 to offset the fee increase arising from the impact of the transition to International Financial Reporting Standards (IFRS) in 2010/11. As these rebates are from the Commission as a regulator, they are separate from (and in addition to) the audit fees set out in paragraph 5.

9 In setting the fee, we have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that assumed originally for 2009/10 - that is, it assumes that the problems experienced in the 2009/10 will not recur;
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 January 2011.

10 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.

11 Further information on the basis for the fee is set out in Appendix 1.

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

12 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.

13 In particular in 2010/11 the Council should :

- Ensure that adequate arrangements and sufficient resources are in place for the preparation of the 2010/11 financial statements.
- Produce timely working papers in line with the working paper requirements checklist we provide which sets out the evidence we require to support the entries in the Council's statements of account.

Auditors report on the financial statements

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 2011.

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 and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>International Financial Reporting Standards (IFRS): This is new requirement for 2010/11. The Council has to produce IFRS compliant accounts by 30 June 2011 and restate its opening balances as at 31 March 2009 and 31 March 2010.</p> <p>After falling behind in its preparations for IFRS during 2010 the Council has recently made significant progress, as reported to the January 2011 Audit Committee.</p>	<p>We are meeting regularly with Finance officers to monitor progress and review work as it is completed.</p>
<p>Valuation and impairment: Valuation issues resulted in a material amendment to the accounts in 2009/10. Impairment is a material accounting estimate.</p>	<p>As part of our regular meetings we will discuss valuation trends with officers. We will review the accounting entries for impairment to ensure they are treated in accordance with FRS 11.</p>
<p>Interim appointments: The Section 151 officer and Chief Accountant are both interim appointments.</p>	<p>The District Auditor and Audit Manager (AM) hold quarterly meetings with the Director of Customer and Shared Services and s151 officer, as well as additional monthly meetings with the s151 officer. The AM and Team Leader meet monthly with the Chief Accountant's team.</p>

Risk area	Audit response
<p>Controls weaknesses: Our work on the Council's financial systems, informed by the work of Internal Audit, is still in progress.</p> <p>Work by Internal Audit on the Payroll system to date has indicated that some key controls have not been operating effectively in the payroll system for the whole of the financial year.</p> <p>Internal Audit's work on the Main Accounting system identified weaknesses around the clearance of control and suspense accounts and the timeliness of some bank accounts (not the Council's main accounts).</p>	<p>We will review Internal Audit work and complete our own walkthrough. However we will plan to carry out substantive testing of the payroll system again in 2010/11.</p> <p>We do not plan to charge an additional fee for this work in 2010/11 as we will offset the cost against savings elsewhere within the audit.</p> <p>The clearance of control and suspense accounts has been prioritised and good progress made. We will continue to monitor this as part of our regular meetings with officers.</p> <p>We will be reviewing year end cash and bank reconciliations as part of our post statements audit work.</p>
<p>Housing Benefit and Council Tax claim:</p> <p>The audit of the Council's 2009/10 housing benefits and council tax claim resulted in a detailed qualification report.</p> <p>We expect to have to carry out additional work on this 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>

Testing strategy

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. We have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Audit of the year end cash and bank reconciliation.
- Related party transactions.
- Fixed asset additions and disposals.
- Substantive testing of the payroll system.
- IFRS restatement and presentation.
- Early discussion of valuation trends.

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

22 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. 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. These audits are referred to as the managed audits.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

23 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on 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 – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

24 The Council's value for money conclusion in 2009/10 stated that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources except for its arrangements for financial reporting.

25 On 31 January 2011 I met with officers to discuss my risk assessment. Officers provided documentation at the meeting to support our work on the value for money conclusion and agreed to provide further documentation following the meeting.

26 We will complete our work after the year end, once the financial outturn for 2010/11 is finalised.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

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

28 I have already issued a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

29 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange additional meetings as necessary depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	January to early April 2011
Receipt of accounts	30 June 2011
Working papers provided to the auditor	4 July 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	Audit Committee 26 September 2011.
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

30 The key members of the audit team for the 2010/11 audit are shown in the table below.

Table 3: **Audit team**

Name	Contact details	Responsibilities
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 Section 151 officer.

Independence and objectivity

31 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.

32 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.

Meetings

33 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

34 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and 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) who will look into any complaint promptly and do what he can to resolve the position.

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

Planned outputs

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

Table 4: **Planned outputs**

Planned output	Indicative date
Audit plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum	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.

Assumptions

3 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is consistent with that assumed originally for 2009/10 - that is, it assumes that the problems experienced in 2009/10 will not recur;
- 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 4 July 2011;
- 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.

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 (i.e. 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.

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
Director of Customer and Shared Services and Section 151 officer	DA and AM	Quarterly	General update plus: March - audit plan July - accounts progress September - annual governance report
Section 151 officer	DA	Monthly	Update on audit issues
Chief Accountant	AM and Team Leader (TL)	Monthly (weekly during July - September)	Update on audit issues
Head of Audit	AM and TL	Monthly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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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