

Audit Opinion Plan (inc UOR)

Slough Borough Council
Audit 2009/10

DRAFT

Contents

Introduction	3
Responsibilities	4
Fee for the audit of financial statements	5
Auditors report on the financial statements	6
Identification of specific risks	7
Testing strategy	9
Key milestones and deadlines	11
The audit team	12
Fees for Use of Resources and VFM conclusion	14
Appendix 1 – Basis for fee	16
Appendix 2 – Independence and objectivity	17
Appendix 3 – Working together	19



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.
-

Introduction

- 1 This opinion plan sets out the audit work that we propose to undertake for the audit of financial statements for 2009/10.
 - 2 This opinion plan also serves to communicate the identified audit risks and proposed procedures to the Audit Committee/Council as required by International Auditing Standards covering auditor communications with those charged with governance.
 - 3 An outline of the work required to assess the achievement of value for money in the use of resources was set out in the fee letter of 21 April 2009. In this opinion plan I have also included any changes to my planned use of resources assessment and work that I am required to carry out to enable me to arrive at a Value for Money Conclusion.
-

DRAFT

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.

DRAFT

Fee for the audit of financial statements

- 7 The indicative fee for the audit of the financial statements is £ 200,800 as indicated in my letter of the 21 April 2009.
- 8 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
 - good quality working papers will be supplied to support accounting entries associated with the introduction of International Financial Reporting Standards (IFRS); and
 - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010.
- 9 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 Resources and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 10 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Slough Borough Council could take to reduce its audit fees

- 11 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.
- 12 One area where there is the potential to reduce the audit fee is by improving the operation of key controls so that these operate consistently across all the Council's financial systems. Currently we are unable to obtain full assurance from reliance on the system of internal control and as a consequence we are required to design and apply year end substantive procedures.
- 13 These have in the past provided us with the necessary assurance but by their very nature require more audit time and resources than would otherwise be required if we were able to place full reliance on the Council's systems. Key systems where we are unable to adopt a controls approach to our audit are:
 - Debtors; Council tax and NNDR

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 2010.

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
Revenue outturn: The Council needs to deliver budget savings to achieve a stable financial position.	<i>We also focus on your processes to recognise income and expenditure in the correct accounting periods.</i>
Controls assurance: We are unable to obtain full assurance from systems work and will need to modify our approach accordingly to gain assurance in the most efficient way.	<i>We will apply year end substantive audit procedures</i>
Valuation of assets: The Council should satisfy itself that interim arrangements introduced following the departure of the Council's Valuer preserves the integrity of its valuation programme and adequately provides for the certification of asset values at the year end.	<i>Early discussions with the Council's interim Valuer, finance staff and the external auditor to obtain assurances that interim arrangements are operating effectively and that year end certification arrangements are in place and clearly understood.</i>
Application of the 2009 SORP: PFI - may bring significant PFI school assets onto the Council's balance sheet. The accounting and record keeping required to achieve this will not be straightforward. Collection fund - From 2009/2010 NNDR taxpayers' debtor and creditor balances will no longer be recognised in the balance sheets of billing authorities.	<i>We will review your proposals to account for these assets at an early stage and design a risk based testing programme to satisfy ourselves as to this issue.</i>
Rent accounting: Risk of errors in reported rent figures and misstatement of rent arrears figures	<i>We will review the work carried out by Internal Audit to provide assurances over the integrity of the system; test key reconciliations and perform</i>

Risk area	Audit response
caused by problems with the change over of rent system	<i>year end substantive testing of debtor balances</i>

DRAFT

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.
 - Review of proposed accounting for PFI schemes
 - Valuation of fixed assets
- Where other early testing is identified as being possible, this will be discussed with officers.
- 21 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 the following pieces of work.
- 22 The IA work that we intend to rely on includes:
- Testing of data migration and the implementation of the Council's new rent accounting system introduced part way through 2009/10;
 - Testing of controls on the Council's General ledger; Payroll, NNDR, Debtors and Council tax systems;
 - Assurances on Payroll master file data integrity following the job evaluation review and the processing of payroll changes
 - Assurances on the IT control environment
- 23 Each year, we carry out a review of Internal Audit to consider the effectiveness of Internal Audit as part of the Council's system of internal control and to maximise the reliance we place on Internal Audit's work in discharging our own responsibilities, in order to minimise duplication of audit work.
- 24 However, every three years or following significant changes to Internal Audit we carry out a more detailed assessment of Internal Audit to confirm that they comply with the requirements of the CIPFA Code of Practice for Internal Audit and to obtain assurance from this review that Internal Audit's work is being performed to a standard that we may rely upon to inform our conclusions.

- 25 We are carrying out this triennial review as part of this year's audit. We will complete our assessment prior to the departure of the outgoing Chief Internal Auditor so we can discuss any issues arising and to provide a base line assessment for the future.
- 26 We understand that the Council has taken steps to strengthen the closedown process this year and we have taken account of these improvements in planning our audit approach. The Council is looking to replace the current interim head of finance to provide better continuity for the future. In the meantime the strategic overview of the closedown process is being undertaken this year by the Deputy Director of Finance and his management team and continuity in terms of the day to day closedown will be maintained as key finance staff will remain the same as last year. The closedown timetable has been brought forward and better communication of the closedown process has been introduced.
- 27 The Council is confident that these changes will result in an overall more effective process. For our part we will maintain a close dialogue with officers during the closedown period to ensure that any emerging issues can be identified, discussed and addressed on a timely basis.

DRAFT

Key milestones and deadlines

- 28 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.
- 29 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 30 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	<ul style="list-style-type: none">• March/April 2010
Receipt of accounts	<ul style="list-style-type: none">• June 2010
Forwarding audit working papers to the auditor	<ul style="list-style-type: none">• July 2010
Start of detailed testing	<ul style="list-style-type: none">• To be confirmed
Progress meetings	<ul style="list-style-type: none">• Weekly
Present report to those charged with governance at the Audit committee <ul style="list-style-type: none">• Audit Committee• Council	<ul style="list-style-type: none">• 13 September 2010• 28 September
Issue opinion	<ul style="list-style-type: none">• By 30 September 2010

The audit team

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

Table 3 **Audit team**

Name	Contact details	Responsibilities
Phil Sharman District Auditor	p-sharman@audit-commission.gov.uk 0844 798 5839	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Alastair Rankine Audit Manager	a-rankine @audit-commission.gov.uk 0844 798 4631	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

- 32 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.
- 33 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

- 34 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

- 35** 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 Sub-region Head of Operations.
- 36** 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

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

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	4 March 2010
Annual governance report	13 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum (if required)	November 2010

Fee for Use of Resources and VFM conclusion

- 38 I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.
- 39 I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.
- 40 The indicative fee for this element of the audit is £123,300 as indicated in my letter of the 21 April 2009.
- 41 My initial planning identified some potentially significant risks which may impact upon my value for money conclusion and I set these out in my letter of the 21 April. For each risk, I have planned my work so as to consider the arrangements put in place by the Council to mitigate the risk and my proposed response is summarised in table 5. There are no additional risks that I need to draw to your attention that would increase the amount of audit work I am planning to undertake or the resulting audit fee.
- 42 Specific risks and my response is included in the following table.

Table 5 **Specific risks**
Specific VFM conclusion risks identified

Risk area	Audit response
The Council is facing significant financial pressures over the short and medium term. The Council needs to deliver budget savings to achieve a stable financial position.	We will review the Council's approach to closing funding gaps during the 2009/10 budget and medium term planning cycles and consider developments in strategic financial planning
The Council has been working with two other councils on a proposal for the provision of shared back office services but has decided very recently not to proceed with the venture.	We will assess the Council's approach to the management of associated risks; examine the robustness of its options appraisal and decision making process and assess how its learning from the experience has positioned it for the future.
In common with other Berkshire public sector bodies, the Council faces significant challenges in	Workforce planning is a new line of enquiry in our use of resources assessment for 2009/10.

Fee for Use of Resources and VFM conclusion

Risk area	Audit response
<p>addressing current and future workforce issues, putting in place effective programmes of action to attract, retain, develop and motivate a 'fit for the future' workforce.</p> <p>In addition the Council has recently completed a job evaluation review and has introduced new contracts for all staff</p>	<p>To augment our assessment we will review how the Council, along with its partners, is developing an effective strategic approach to this issue and the impact that the job evaluation review has had on the Council's workforce arrangements</p>

DRAFT

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 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;
 - 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 the agreed date;
 - 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 Council. 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 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.

DRAFT

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 6 Proposed meetings with officers/members

Council officers	Audit Commission staff	Timing	Purpose
Director of Resources and members of the senior management team	DA and AM	Monthly meetings	General update plus: March - audit plan July - accounts progress September - annual governance report
Deputy Director of Resources	AM and Team Leader	As required within the framework of the monthly meeting schedule agreed above	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	Quarterly	Reporting of: <ul style="list-style-type: none"> • Audit Plan • Annual governance report • Other issues as appropriate
Council	DA and AM	September	Formal reporting of the Annual Governance report

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.

DRAFT