

# Audit opinion plan

**Carlisle City 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

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion for 2010/11.**

**1** 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

**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.**

**2** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**3** I 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 2010/11 audit is £123,075, as indicated in my letter of 27 April 2010.**

4 The Audit Commission scale fee for a district Council is £117,100. The fee proposed for 2010/11 (£123,075) is 5.1 per cent above the scale fee and is within the normal level of variation specified by the Commission. The fee for the 2009/10 audit was £123,075.

5 The Audit Commission increased scale fees for 2010/11 by 6 per cent to reflect the additional work required by the introduction of International Financial Reporting Standards (IFRS). However the Audit Commission recognised the financial pressures faced by audited bodies and refunded these transitional costs. The Council received a refund of £7,031 in April 2010.

6 Introducing IFRS would have led to an increase in the fee. I have held the fee the same for 2010/11 to try and reflect the improvements seen in the 2008/09 and 2009/10 accounts. In setting the fee, I have assumed:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate and comprehensive working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with IFRS; and
- Internal Audit undertakes appropriate work on systems and this is available for our review by 31 March 2011.

7 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, I will discuss this first with the Assistant Director (Resources) and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 The Commission wrote to all audited bodies on 9 August 2010 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 2010. The Secretary of State's announcement on the government's intention to abolish the Commission delayed consultation until December 2010. The consultation ends 7 January 2011 and the impact on 2010/11 and 2011/12 fees should be known by the end of February 2011.

# Auditors report on the financial statements

**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).**

**9** 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.

## Materiality

**10** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## Identifying opinion audit risks

**11** I need to understand the Council in order to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I 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's information systems.

# Identification of audit risks

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

Table 1: **Audit risks**

Risk area	Audit response
Preparation of accounts which comply with Code of Practice for Local Authorities based on International Financial Reporting Standards – risk of non compliance with new standards.	I will review the re-stated 2009/10 accounts and work with your officers on any challenging areas. I will review the 2010/11 financial statements compliance with the IFRS based Code.
Revenues and Benefits shared service commenced on 1 April 2010 and staff from Allerdale and Copeland Borough Councils transferred to Carlisle City Council – risk of not complying with accounting requirements.	I will review the accounting treatment in the Comprehensive Income and Expenditure Statement.
Transformation programme and redundancy costs – risk of not complying with accounting requirements.	I will review the accounting treatment of any provisions and financing of in-year costs.



# Testing strategy

**On the basis of risks identified above I 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.**

**12** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**13** Wherever possible, I will complete some substantive testing earlier in the year, and before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Re-stated 2009/10 accounts under IFRS.
- Review of accounting policies.
- Bank reconciliation.
- Pensions contributions.
- Investments and fixed assets – ownership.
- Year-end feeder system reconciliations.
- Journals.
- Existence of assets.
- Verification of loans outstanding.
- Income from NNDR and Revenue Support Grant.
- Material transaction streams such as expenditure on payroll and depreciation and car parking income.

**14** Where I identify other possible early testing, I will discuss it with officers.

**15** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Internal Audit's annual report to support the Annual Governance Statement.
- Other detailed testing of material financial systems.

**16** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of another auditor in respect of the Cumbria Local Government Pension Scheme and information provided by the actuary.

**17** I also plan to rely on the work of experts in the following areas.

- Valuation officer for the Council's land and buildings.
- Actuarial advice regarding pensions costs.

# Value for money conclusion

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

**18** For 2010/11, the Audit Commission has reviewed the approach to Value for Money work. This year, my conclusion will be 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.

**19** I will undertake a risk assessment of the Council's arrangements and will consider then any further VFM audit work needed to support my conclusion. I will discuss with officers and report to the Audit Committee on any risks I identify.

# 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 my opinion and value for money conclusion by 30 September 2011.**

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

**21** I will agree with you 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.

**22** Every fortnight, during the audit, the audit team will meet with the Financial Services Manager and the Chief Accountant to discuss issues arising from our work and to review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

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Table 2: **Proposed timetable**

Activity	Date
Controls and early substantive testing	January to March 2011
Receipt of accounts	28 June 2011
Sending working papers to the auditor	27 June 2011
Start of detailed testing	27 June 2011
Progress meetings	Fortnightly
Present report to those charged with governance at the Audit Committee	27 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

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## The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Karen Murray District Auditor	<a href="mailto:k-murray@audit-commission.gov.uk">k-murray@audit-commission.gov.uk</a> 0844 798 7041	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Assistant Director (Resources).
Richard McGahon Audit Manager	<a href="mailto:r-mcgahon@audit-commission.gov.uk">r-mcgahon@audit-commission.gov.uk</a> 0844 798 4760	Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Director (Resources) and the Financial Services Manager.

### Independence and objectivity

**23** 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.

**24** 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 1.

### Meetings

**25** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 2.

## Quality of service

**26** I aim to provide you with a fully satisfactory audit service. If you have any concerns about the level of service, please raise them with me. 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](mailto:c-westwood@audit-commission.gov.uk)) who will look into any matters promptly to resolve the position.

**27** 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

**28** My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

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Table 4: **Planned outputs**

Planned output	Indicative date
Memorandum of issues arising from interim audit work	June 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011
Final accounts memorandum	November 2011
Annual audit letter	November 2011

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## Appendix 1 Independence and objectivity

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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.

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.

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.

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 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 seven years, with additional safeguards in the last two 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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 2 Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and Assistant Director (Resources)	District Auditor and Audit Manager	Quarterly	General update.
Assistant Director (Resources) and Financial Services Manager	District Auditor and Audit Manager	Quarterly	Update and discussion of audit risks and action needed.
Financial Services Manager, Chief Accountant and other finance staff	Audit Manager and Team Leader	As required and every fortnight during July and August	General update on current accounting issues.
Audit Committee	District Auditor and Audit Manager with Team Leader as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"><li>■ Audit Plan;</li><li>■ Annual governance report; and</li><li>■ Other issues as appropriate.</li></ul>

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I 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.



## Appendix 3 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

An organisation to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

## **Annual Governance Statement**

Local government bodies are required to publish an Annual Governance Statement (AGS) with their financial statements. The disclosures in the AGS are supported and evidenced by the body's assurance framework. At local authorities the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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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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