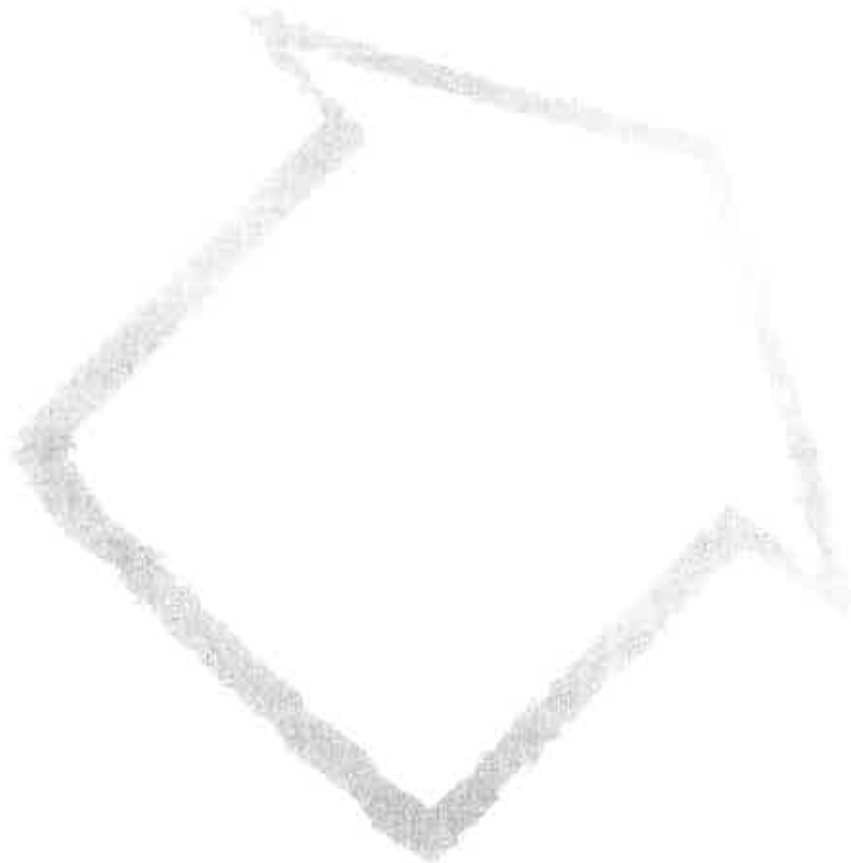


Audit Opinion Plan

Carlisle City Council

Audit 2009/10

June 2010



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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.

Introduction

- 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.

Responsibilities

- 1 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 our audit work is undertaken in the context of these responsibilities.
- 3 We comply with the statutory requirements governing our audit work, in particular:
 - 4 the Audit Commission Act 1998; and
 - 5 the Code of Audit Practice.

Fee for the audit of financial statements

- 1 The fee for the audit is £123,075. 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.
- 2 The audit fee is the same as indicated in Robin Baker's letter of 23 April 2009.
- 3 This audit fee assumes that:
 - 4 the level of risk in relation to the audit of accounts is consistent with that for 2008/09; and
 - 5 Internal Audit undertakes appropriate work on all material systems.
- 6 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. I have identified some risks, set out later in this report, where I am now considering the additional work required and the potential impact on the audit fee. I will discuss this in the first instance with the Assistant Director - Resources and I will issue supplements to this plan to record any revisions to the risk and the impact on the fee.
- 7 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Carlisle City Council could take to reduce its audit fee

- 1 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.
- 2 Areas of improvement which could reduce the audit fee are as follows.
 - 3 Ensuring that greater consideration is given to compliance with all Financial Reporting Standards in producing the financial statements.
 - 4 Ensuring that the Annual Governance Statement (AGS) includes all material weaknesses in internal control.
 - 5 Undertaking reasonableness tests as part of quality assurance arrangements to minimise errors in the draft Whole of Government Accounts (WGA).

Auditors report on the financial statements

- 17 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).
- 18 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

- 19 As part of my audit risk identification process, I need to fully understand the audited body 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 information systems.

Identification of risks

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

Table 1 Significant risks

These risks are significant because of the impact they may have on the statement of accounts

Risk	Testing strategy
Weaknesses in the IT controls environment for part of 2009/10 mean that there is a risk of unauthorised access to the Council's financial systems and records.	<p>I will assess the potential impact poor network controls have had on general ledger interfaces.</p> <p>I will consider the adequacy of individual material systems access controls in terms of limiting unauthorised access.</p>

I have also identified a number of specific opinion risks audit and have set these out below.

Table 2 Specific opinion risks

Specific opinion risks identified

Risk area	Audit response
<p>The Council is implementing a new Fixed Asset register called 'REAL'. There are two risks:</p> <ul style="list-style-type: none"> the closing balances on the old system will not be accurately transferred to the new system; in year transactions recorded within the new asset register are not in accordance with requirements. 	<p>I will undertake the following work on the new asset register:</p> <ul style="list-style-type: none"> document the way in which the system works and then identify and assess the controls operating within it. confirm the closing balance totals on the old system have been accurately transferred to the new system and substantively test a sample of individual balances; I will also undertake substantive testing of fixed asset entries at the year end.
<p>The challenging economic climate may affect the values of the Council's assets. It is also likely to affect the collectability of debts.</p>	<p>I will review the basis of the valuation of fixed assets.</p> <p>I will consider the estimation of bad debt and the provision made for it to ensure it reflects the current economic climate.</p>

Risk area	Audit response
The Council is required to produce statements that comply with professional standards. This includes compliance with the Statement of Recommended Practice (SoRP).	I will review the statements to ensure compliance with all current SORP requirements, including those that have changed for 2009/10.
The Council has re-structured its senior management during 2009/10. This led to a number of redundancies and early granting of pensions. The Council has also got a Capitalisation Direction for the statutory part of the redundancy payments and the pension costs.	I will review the accounting entries for the redundancy payments, pension costs and the treatment of the Capitalisation Direction.

Testing strategy

- 17 On the basis of risks identified above, I will prepare a testing strategy. This will include testing on key controls and/or substantive tests of transaction streams and material account balances at year end.
- 18 My testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 19 Wherever possible, my team will complete controls testing and some substantive testing 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;
 - Bank reconciliation;
 - Loans external confirmation;
 - Investments external confirmation;
 - Fixed asset physical verification;
 - Fixed asset - agreement to deeds / Land Registry;
 - Substantive testing of material transaction streams such as payroll expenditure, investment income, depreciation, improvement grants expenditure, car parking income.
- 20 Wherever possible, I seek to rely on the work of Internal Audit to help meet my responsibilities.

Key milestones and deadlines

- || The Council is required to prepare the financial statements by 30 June 2010. I am required to complete our audit and issue my opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 3.

Table 3 Proposed timetable

Task	Deadline
Control and early substantive testing	June 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	30 June 2010
Start of detailed testing	2 August 2010
Progress meetings	Fortnightly
Present report to those charged with governance at the Audit committee	24 September 2010
Issue opinion	30 September 2010

Every fortnight, 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.

The audit team

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

Table 4 Audit team

Name	Contact details	Responsibilities
Karen Murray District Auditor	k-murray@audit-commission.gov.uk 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.
Richard McGahon Audit Manager	r-mcgahon@audit-commission.gov.uk 0844 798 4760	Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Director (Resources) and Financial Services Manager.
John Cangle Team Leader	j-cangle@audit-commission.gov.uk 0844 798 4755	Responsible for the day to day work on opinion. Key point of contact for Financial Services Manager and Chief Accountant.

Independence and objectivity

- 24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.
- 25 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

- 26 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

- 27 I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how I can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Terry Carter, the North West Head of Operations.
- 28 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

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

Table 5 Planned outputs

Planned output	Indicative date
Opinion audit plan	June 2010
Annual governance report	24 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
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

- 1 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 30 June 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.
- 2 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.

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.
 - 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

- The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- Our proposal for the meetings is as follows.

Table 6 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Assistant Director - Resources	DA and AM	March, September and as required	General update plus: <ul style="list-style-type: none"> – March - audit plan – September - annual governance report
Financial Services Manager	AM and Team Leader (TL)	Quarterly (fortnightly during final accounts).	Update on audit issues. Accounts progress.
Financial Services Manager			
Chief Accountant	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> Audit Plan Annual governance report Other issues as appropriate
Audit Committee			

Sustainability

- 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.

The Audit Commission

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.

Access to this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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