

Opinion audit plan

Torbay 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 2010/11.

1 The audit is divided into:

- Financial statements; and
- Value for Money conclusion.

2 This document describes how I will deliver my audit work for Torbay Council.

3 The work 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.

4 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.

5 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

6 My statutory responsibilities governing the audit work and powers are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice (the Code).

7 The Audit Commission's Code summarises my responsibilities into two objectives, requiring me to review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and
- value for money: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

8 The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council.

Fee for the audit

The fee for the audit is £250,000, as indicated in my letter of 7 July 2010.

9 The audit fee for this Council is £250,000 (less subsequent abatements made by the Commission). The fee is 2.5% above the scale fee and is within the normal level of variation specified by the Commission.

10 In setting the 2010/11 fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit to support compliance with International Financial Reporting Standards (IFRS); this will include details for current year and prior year comparators;
- your financial statements and, if published, the annual report, are made available for audit in line with the agreed timescales;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to queries and draft reports; and
- Internal Audit undertakes appropriate work on all material systems and this is available for my review on a timely basis.

11 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 Chief Financial Officer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

12 Further information on the basis for the fee is set out in appendix 1.

Specific actions the Council could take to reduce its audit fees

13 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, I will work with staff to identify any specific actions that the Council could take, over and above those set out above, to secure a fee reduction and ensure that there is no need to increase the audit fee above the current level.

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).

14 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

15 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

16 I need to understand fully 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's information systems.

Identification of specific risks

I 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
Implementation of International Financial Reporting Standards	
<p>The Council is required to implement new International Financial Reporting Standards in 2010/11.</p>	<p>I review the Council's plans for implementing and accounting for these new Standards.</p> <p>I have been liaising with the Council's finance team to review the principles that have been applied in adopting IFRS for the 2010/11 accounts.</p> <p>Where possible, I am reviewing key elements of the restated 2009/10 core statements prior to the main statements audit.</p> <p>I will carry out appropriate audit tests on the IFRS compliant accounts to ensure that they are materially correct.</p>
<p>Foundation schools accounting under IFRS.</p>	<p>I am reviewing the council's accounting for foundation schools under IFRS to ensure that it is correct.</p>
<p>Changes in borrowing relating to pre 1998 debt and financing of capital programme.</p>	<p>I will review the accounting for these significant transactions.</p>
<p>Possibility that group accounts may be required under IFRS</p>	<p>The council has carried out an assessment to quantify the value of group transactions and has concluded that they are not material. I am reviewing the assessment to ensure that group accounts need not be produced.</p>
<p>Payroll controls - During 2009/10, although some existence checks on payroll payments were made, confirmations were not carried out and followed up systematically across the payroll.</p>	<p>In agreement with the Chief Financial Officer, a 100% check was carried out at the end of the year. Internal audit have reviewed the arrangements and I will verify that the checks provide the assurance needed.</p>

Value for money risks

17 I am undertaking a risk assessment for the VFM conclusion which, as specified by the Commission, focuses in particular upon:

- securing financial resilience
- challenging how the Council secures economy, efficiency and effectiveness

18 If, as a result, further substantive work is required, I will advise you and the Chief Financial Officer.

Testing strategy

On the basis of risks identified above I have produced a testing strategy which consists of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

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

20 Where possible, I complete some substantive testing earlier in the year before the financial statements are available for audit. Areas where substantive testing can be carried out early include:

- IFRS restated accounts
- Review of accounting policies
- Cash and bank reconciliation
- Related party disclosures
- Investments and borrowing verification;
- Year end material journals
- Year-end feeder system reconciliations
- Consistency checks between the core statements and supporting disclosure notes.

21 Also, I seek to rely on the work that Internal Audit does in support of the section 151 officer and the Annual Governance Statement to help meet my responsibilities. For 2010/11, I expect to be able to use some of the results of the following pieces of work on material systems:

- Debtors
- Creditors
- Main accounting system
- Bank reconciliations
- Payroll
- Treasury management
- Council tax & non-domestic rates
- Benefits
- Fixed (non-current) assets
- Schools Finance
- Children's Service (looked after children)
- Supporting People.

22 I will also seek to rely upon the work of other auditors and experts, as appropriate, to meet my responsibilities.

23 For 2010/11, I plan to rely on the work of other auditors in the following area:

- The Audit Commission appointed auditor for Devon Pension Fund in respect of FRS 17 information included in the financial statements.

24 I also plan to rely on the work of experts in the following areas:

- The Council's in-house valuer in respect of non-current assets valuations.
- Gerald Eve - the external auditor's expert for non-current asset valuations.

Value for money conclusion

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

25 As noted previously, this is focused on two criteria, specified by the Commission, covering your arrangements for:

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

26 I will plan substantive VFM audit work, if required, based on my risk assessment. If additional work is needed I will report this to you and to the Chief Financial Officer.

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 set out in table 4.

28 I have agreed with management a schedule setting out the minimum 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 financial statements audit, the audit team will discuss progress with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	November 2010 to April 2011
Receipt of accounts	June 2011
Sending working papers supporting the accounts to the auditor	June 2011
Start of detailed testing	June 2011
Progress meetings	Weekly or as required during financial statements audit.
Present report to those charged with governance at the Audit Committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 5 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Alun Williams District Auditor	al-williams@audit-commission.gov.uk 0844 798 5603	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion & conclusion, and liaison with the Chief Executive.
Steve Brown Audit Manager	s-brown@audit-commission.gov.uk 07769 672920	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Financial Officer.
Stuart Holmes	s-holmes@audit-commission.gov.uk	Manages the detailed audit work on the systems and financial statements audit.

Independence and objectivity

30 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.

31 I comply with the ethical standards issued by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Meetings

32 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 3.

Quality of service

33 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 to do what he can to resolve the position.

34 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

35 My team will discuss and agree reports with management before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Value for money conclusion	September 2011
Final accounts memorandum to management	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

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.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my 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

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.
- You will inform me 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 I can place reliance for the purposes of our audit.
- You provide:
 - good quality working papers and records to support the financial statements by 30 June 2011;
 - information asked for within agreed timescales; and
 - prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

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

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 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 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 3 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 Financial Officer	District Auditor (DA) and Audit Manager (AM)	Regular liaison meetings throughout the year.	Regular general updates plus specific discussions about the audit plan, audit & accounts progress and the annual governance report.
Chief Accountant	AM and Team Leader (TL)	Regularly and weekly during Financial Statements audit	Update on audit issues
Audit Committee	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

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 4 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

A body 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.

Directors

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

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 a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

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 (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements; and
- for other local government bodies – the full authority or board or Council, audit committee (where established) 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, other than probation boards and trusts, 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.