

15 December 2008

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Dear John

### **Supplementary opinion audit plan 2008/09**

You will recall that I issued the initial audit plan for 2008/09 in May 2008, which set out the work that I proposed in order to satisfy my responsibilities under the Audit Commission's Code of Audit Practice. As this plan was produced at the start of the financial year to give you an indication of the proposed fee, I was not able at that time to specify the detailed risks that I would need to consider as part of my audit opinion work.

I am now in a position to do this as the opinion work is about to commence. This letter represents my supplementary opinion plan under International Standard on Auditing (United Kingdom and Ireland) 300.

The above standard requires me to:

- identify the risk of material misstatements in your accounts;
- plan audit procedures to address these risks; and
- ensure that the audit complies with all relevant auditing standards.

I have therefore considered the additional risks that are appropriate to the current opinion audit and I have set these out in the Appendix to this letter.

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In my original audit plan, the estimated fee for the opinion audit was based on my best estimate at the time and agreed at 128,345 as part of a total audit fee of £149,680. The issues identified as part of the 2007/08 audit resulted in an additional audit fee being charged in that year of £10,000, giving a total fee for the opinion audit of £124,740. We are agreeing an action plan with the Council to improve the accounts production processes for 2008/09 and on the assumption that this will be implemented and improvements made, I have decided not to increase the 2008/09 audit fee at this stage. However, if processes do not improve as anticipated then we will need to revisit the audit fee in 2009 and charge an additional fee, if appropriate.

Yours sincerely

Paul King  
*District Auditor and Relationship Manager*

cc Christine Connolly



## Appendix 1 - risk assessment - opinion audit

| Risk  | Mitigating action by audited body  | Residual risk | Audit response  |
|---|--|---------------|---|
| <p>Our 2007/08 accounts work identified a number of issues:</p> <ul style="list-style-type: none"> <li>the accounts submitted for audit contained a significant number of typing casting and other inconsistency errors;</li> <li>the prior period adjustment had not been included in the accounts;</li> <li>casting errors and inconsistencies between main accounts, notes and other key financial statements;</li> <li>not all working papers initially provided clearly supported the figures in the accounts; and</li> <li>there were instances of non compliance with the Statement of Recommended Practice (SoRP) and accounting policies.</li> </ul> | <p>We have highlighted key areas for improvement to officers and action is being taken to improve processes.</p> | Yes           | <p>We will continue to work closely with the finance team to identify a clear accounts preparation and audit process, including working paper requirements.</p> |
| <p>Our audit identified the following uncertainties in the financial statements that management</p>   | <p>Officers are reviewing these figures in detail to understand</p>  | Yes           | <p>We will review action taken as part of our accounts audit and</p>  |

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|---|---|------------|---|
| <p>decided not to adjust:</p> <ul style="list-style-type: none"> <li>• VAT account income of £144k; and</li> <li>• NNDR income of £231k.</li> </ul> <p>These sums have historically been carried forward as part of the year end reconciliations.</p>   | <p>their impact on the accounts before making any amendments.</p>   |            | <p>may need to perform additional substantive procedures.</p>   |
| <p>Journals processed through the ledger are not always subject to independent review or authorisation.</p>   | <p>Arrangements are being reviewed and action is being taken to strengthen controls.</p>  | <p>Yes</p> | <p>This leaves a potential control weakness which could result in unauthorised movements between accounts codes or error occurring during input. We will need to perform additional substantive procedures on the financial statements.</p> |
| <p>Budgetary control is a key control in any organisation to prevent or detect and correct a material misstatement in the accounts. Our work has identified that in previous years the Council's budgetary control procedures were not effective.</p>   | <p>The Council has considered the effectiveness of its financial management and budget monitoring procedures and revised arrangements have been put in place for 2008/09.</p> | <p>Yes</p> | <p>We will need to perform additional substantive procedures on the financial statements to ensure the accounts are not materially misstated.</p>   |
| <p>The Value for Money conclusion issues in respect of the Council's arrangements at 31 March 2008 was qualified as the Council did not have adequate arrangements:</p> <ul style="list-style-type: none"> <li>• to put in place a medium term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;</li> <li>• for managing performance against budgets;</li> <li>• for the management of its asset base;</li> <li>• to maintain a sound system of internal control;</li> </ul> | <p>We have highlighted key areas for improvement to officers and action is being taken to improve processes.</p>  | <p>Yes</p> | <p>We will review the Council's progress in improving its arrangements as part of our planned work on Use of Resources and the Value for Money Conclusion.</p>  |

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| <ul style="list-style-type: none"><li>• to ensure its spending matches its available resources; and</li><li>• to manage and improve value for money.</li></ul> |  |  |  |
|--|--|--|--|