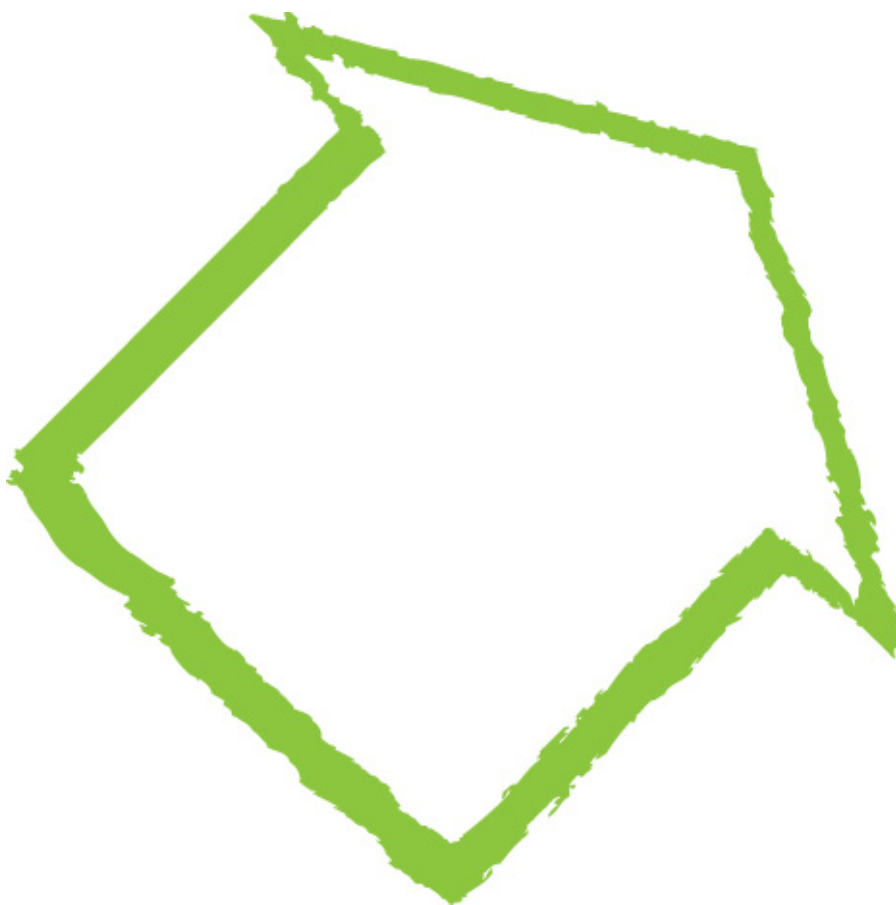


Audit Opinion Plan

Uttlesford District Council

Audit 2009/10

March 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.
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Introduction

- 1 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

- 2 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.
- 3 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.
- 4 We 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

- 5 The original indicative fee for the audit is £129,860, as indicated in Paul King's fee letter of April 2009. This has since been revised to £124,250, in recognition of the improvements noted in the 2008/09 final accounts audit, and reflects an assumption on our part that the Council will continue to improve its accounts preparation processes for 2009/10.
- 6 The Audit Commission scale fee for the Council is £99,919. The revised fee proposed for 2009/10 is 24 per cent above the scale fee and is within the normal level of variation specified by the Commission.
- 7 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;
 - the Council will supply good quality working papers to support the 2009/10 financial statements;
 - the adoption of IFRIC 12 in respect of Public Finance Initiatives (PFI) and similar contracts will be supported with good quality supporting working papers; and
 - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010.
- 8 Where these assumptions are not met, we 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 Chief Finance Officer and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Uttlesford District Council could take to reduce its audit fees

- 10 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.

Auditor's report on the financial statements

- 11 We 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).
- 12 We are required to issue an audit report giving an 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

- 13 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

- 14 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 and value for money conclusion risks identified

Risk area	Audit response
<p>As the economic downturn continues, local authorities anticipate a reduction in overall income received, including grant support from central government. The Council has included this assumption within its financial planning, however a risk still exists on the impact the recession will continue to have on the financial position of the Council and may increase the risk of financial misreporting.</p>	<p>We will continue to monitor the Council's financial health and factor any risks into our planned work. In particular, we will undertake cut off testing to ensure income and expenditure are accounted for in the correct period and will target our testing to test for the completeness of provisions and accruals.</p>
<p>Current fluctuations in financial markets may impact on the value of the Council's land and buildings, investments, cash balances and pension liabilities.</p>	<p>We will consider the valuation of the Council's land and buildings, investments, cash balances and pension liabilities at our final accounts audit to ensure that current values are not materially different to those disclosed in the financial statements.</p>
<p>With adoption of IFRS in 2010/11, the transition date for local government is 1 April 2009. Local government bodies will therefore need to restate the closing balance sheet for 2008/09 using IFRS as the starting point for their restatement.</p>	<p>The Council has slipped against the proposed IFRS implementation timetable, although progress is now being made. We will continue to work closely with finance staff to obtain the necessary information.</p>
<p>There have been a number of changes made to the CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2009, the Statement of Recommended Practice (SORP), which have been summarised at Appendix 4. In particular, the new accounting requirements for PFI and similar contracts will impact significantly on our audit work as the Council has a PFI scheme in place.</p>	<p>We will review our testing approach once the impact of the SORP changes on the Council's financial statements becomes clear.</p> <p>With regards to the new accounting requirements in 2009/10 for PFI and similar contracts, we will undertake a specific review to ensure any such arrangements have been identified and appropriately accounted for.</p>

Risk area	Audit response
<p>In the 2009 Use of Resources (UoR) assessment, a number of Key Lines of Enquiry (KLOE) were scored as level one. This resulted in a qualified VFM conclusion. The affected KLoEs were:</p> <ul style="list-style-type: none"> ● KLoE 1.2 - Understanding costs; ● KLoE 2.1 – Procurement; ● KLoE 2.4 - Risk management and internal control; and ● KLoE 3.2 - Asset management (Note, KLOE 3.2 was not mandated for the 2009 assessment, but was considered for VFM Conclusion purposes as a level one score was achieved in the 2008 assessment). 	<p>The Council has put arrangements in place to improve in the relevant KLOEs. We will consider these as part of the 2010 UoR review and assess the impact on the VFM conclusion for 2009/10.</p>

Testing strategy

- 15 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.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 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.
 - Bank reconciliation.
 - Investments – confirmation that these are the Council's assets as at 31 March.
 - Year-end feeder system reconciliations.
 - Agreement of opening balances.
 - Fixed assets – confirmation of ownership and existence.
 - Payroll, housing rental income, business rates and council tax predictive analytical review.
- 18 Where other early testing is identified as being possible, this will be discussed with officers.
- 19 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. Our fee for 2009/10 assumes that we can use the results of all their audit work on the main financial systems.

Key milestones and deadlines

- 20** 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.
- 21** We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 22** 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	March 2010
Receipt of accounts	30 June 2010
Providing audit working papers to the auditor	30 June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	21 September 2010
Issue opinion	By 30 September 2010

The audit team

23 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
Debbie Hanson District Auditor	d-hanson@audit-commission.gov.uk 0844 798 5816	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Gary Belcher Audit Manager	g-belcher@audit-commission.gov.uk 0844 798 2606	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer.
Francesca Palmer Team Leader	f-palmer@audit-commission.gov.uk 0844 798 5552	Responsible for day-to-day supervision of the audit team. Key point of contact for finance staff.

Independence and objectivity

- 24 We are 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.
- 25 We 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. Appendix 3 sets out our proposals.

Quality of service

- 27** 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 Eastern Sub-region Head of Operations, Andy Perrin on a-perrin@audit-commission.gov.uk.
- 28** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The leaflet 'Something to Complain About' which is available from the Commission's website or on request sets out the complaints procedure.

Planned outputs

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

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	Early September 2010
Auditor's report giving an opinion on the financial statements and value for money conclusion	By 30 September 2010
Final accounts memorandum	November 2010
Annual Audit Letter	December 2010

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- 30** Appendix 4 sets out the key changes in the financial reporting regime that we have taken account of in preparing this plan.

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, we 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 affecting the audit;
 - Internal Audit meets the relevant professional standards;
 - Internal Audit undertakes enough work on all systems that provide material figures in the financial statements so we can place reliance on it for our audit;
 - you will provide good quality working papers and records to support the financial statements by 30 June 2010;
 - you will provide requested information within agreed timescales;
 - you will provide prompt responses 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, we 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 Performance Select 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 Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The Engagement Lead 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 Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Officer	DA and AM, as appropriate	Quarterly	General update and ongoing liaison.
Chief Finance Officer	AM and Team Leader (TL)	March, June, September	General update plus: <ul style="list-style-type: none"> • March - audit plan; • June - accounts progress; and • September - annual governance report.
Principal accountants	AM and TL	Weekly during final accounts audit	Update on audit issues and discuss matters arising.
Performance Select 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; • Annual Audit Letter; and • other issues as appropriate

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.

Appendix 4 – 2009 SORP and other financial reporting changes

1 Table 6 below sets out the key changes to financial reporting arising from the 2009 SORP and other legislative changes.

Table 6 Financial reporting changes

The table only sets out the changes that could impact on the Council

Change	2009/10 impact
The accounting requirements for PFI and similar contracts are no longer based on the UK accounting standard FRS 5 but on IFRIC 12.	We understand that the Council does have such contracts in place, and therefore appropriate disclosures will need to be included in the 2009/10 accounts. We will undertake a specific review to ensure any such arrangements have been identified and appropriately accounted for.
Previously, the accounting requirements for local taxes (ie national non-domestic rates and council tax) impacted almost entirely on the billing authority. The SORP now recognises that the billing authority acts as the major preceptors' agent and that both billing authority and preceptor should include their appropriate share of income and the respective debtors, creditors and impairment allowance.	<p>The Council will have to include:</p> <ul style="list-style-type: none"> • their accrued share of council tax income in the I&E; • their share of the council tax debtors and creditors in the balance sheet; and • a creditor/debtor in respect of the cash due to/from the precepting authorities in the balance sheet. <p>In addition, appropriate entries will need to be included within the Statement of Movement in General Fund Balance and Cashflow Statement.</p>
The element of long term financial liabilities due to be settled within 12 months after the balance sheet date now has to be presented in current liabilities.	Disclosure item with balance sheet and notes to the financial statements required.

Appendix 4 – 2009 SORP and other financial reporting changes

Change	2009/10 impact
<p>The SORP no longer requires disclosure notes in three areas, set out below, that were included in the Authority's 2008/09 Statement of Accounts:</p> <ul style="list-style-type: none"> ● Publicity expenditure; ● Expenditure under the Local Authorities Goods and Services Act 1970; and ● Building control account. 	<p>The Council may wish to continue to include such notes, although they are no longer required and we have assumed they will not be included.</p>
<p>Authorities must now disclose in Note 10 of the accounts, individual remuneration details for senior local government employees earning over £150,000 by name, and for all other 'senior' employees for each financial year by post title. Senior officers are defined as individuals earning over £150,000 per year, or individuals whose remuneration is more than £50,000 per year (pro-rata) and holding defined 'senior' positions. The disclosure requirement has been extended to cover chief officers with the reporting bands narrowed from £10,000 to £5,000 for all employees earning over £50,000 pro-rata.</p>	<p>Increased disclosure that applies to 2009/10.</p>
<p>The responsible financial officer now certifies that the accounts give a 'true and fair view' rather than 'presents fairly'.</p>	<p>Disclosure requirement changes.</p>

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.

Copies of this report

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