

# Audit Opinion Plan

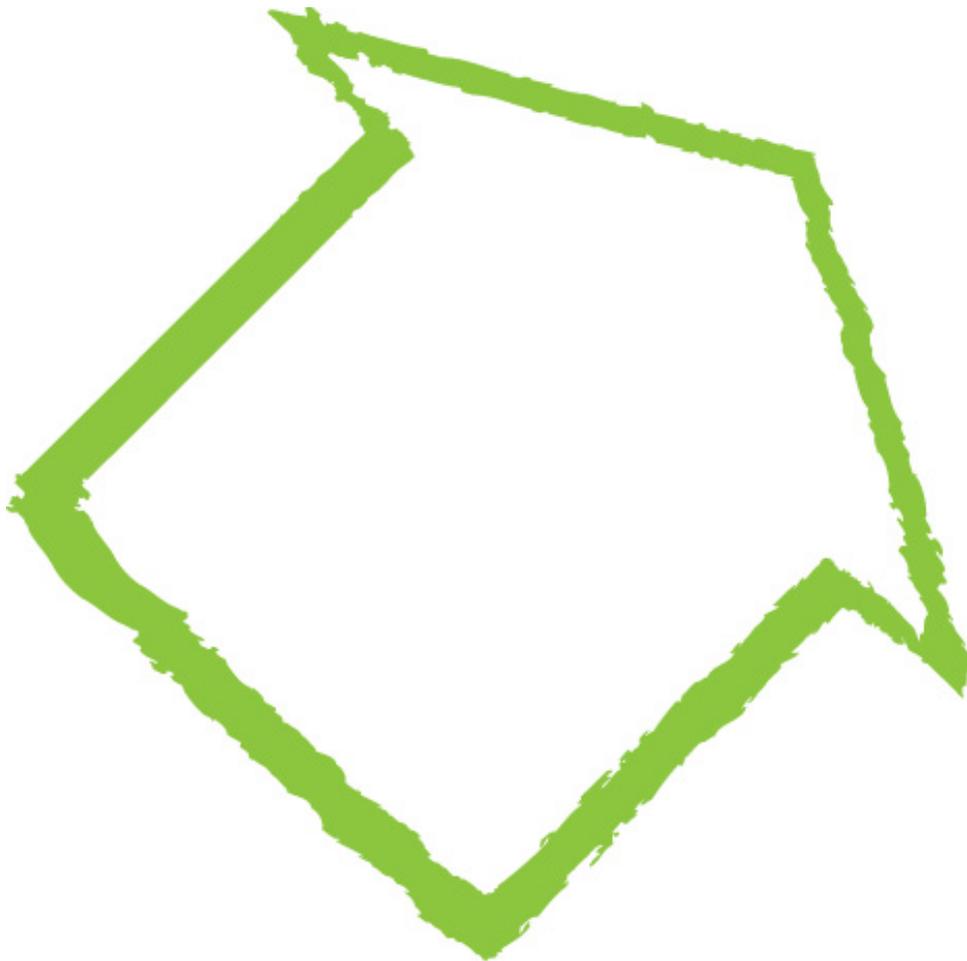
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Norwich City Council

Audit 2009/10

September 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

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- 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.

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# Responsibilities

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- 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

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- 5 The fee for the audit is £195,863, which is £21,000 more than indicated in my annual audit fee letter of 22 April 2009 because of the risks identified in table 1. The most significant contributory factors are:
- insufficient progress has been made in improving the overall control environment, including the role of internal audit, within the Council. I am unable to rely on Internal Audit controls work and my audit remains heavily substantive in nature; and
  - the 2009 Statement of Recommended Practice (SoRP) includes a number of technical changes including early adoption of International Financial Reporting Interpretations Committee (IFRIC) 12, Service Concession Arrangements.
- 6 At the time of issuing the annual fee letter we had yet to complete my audit of the 2008/09 financial statements. Our 2008/09 Annual Governance Report included a number of material and significant amendments. Working papers were not considered to be at the required standard in 2008/09. This opinion audit plan presumes that the issues found in 2008/09 will not recur in 2009/10. Should this prove not to be the case then I will need 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 Head of Finance 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.

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## Specific actions Norwich City Council could take to reduce its audit fees

- 8 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. Identified actions are:
- improve the internal control environment such that I can start to take a more controls based approach to the audit;
  - ensure that all issues identified in previous year's audits are fully addressed when drafting the current year's statements;

## Fee for the audit of financial statements

- ensure the working papers supporting the financial statements are to the required standard; and
- ensure a comprehensive read-through of the financial statements, including internal consistency checks, is carried out before presenting the financial statements for audit.

# Auditor's report on the financial statements

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- 9 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).
- 10 I am required to issue an audit report giving my opinion on whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 11 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 specific risks

12 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
<p>Our cumulative knowledge and updated systems walkthroughs in 2009/10 confirm that there are some ongoing weaknesses in both the design and the operation of some controls. This continues to limit my ability to rely on systems controls to provide audit assurance. Further strengthening of the underlying control environment is required.</p>	<p>Additional substantive audit testing has been planned to address the gaps in controls assurance in 2009/10.</p>
<p>Our triennial review of Internal Audit in 2008/09 detected weaknesses in arrangements. This meant that we were unable to rely on Internal Audit's work. The action plan to address the weaknesses has not yet been implemented, so the issues continue to impact the 2009/10 audit.</p> <p>Additionally, many Internal Audit reports on the main accounting systems are not yet finalised. The Head of Internal Audit has yet to issue his overall opinion to support the comments made in the Annual Governance Statement.</p>	<p>This continues to impact on my overall assessment of the control environment at the Council.</p> <p>I am unable to place reliance on controls work carried out by Internal Audit, although findings from their reviews have been considered in terms of the risks for our audit opinion based on final and draft reports issued to date.</p>
<p>The 2008/09 audit was protracted due to the number of audit issues arising. Material and significant amendments to the financial statements were reported in our Annual Governance and Report. Neither the Head of Finance nor the Audit Committee formally signed or dated the financial statements presented to us for audit for 2009/10. Our initial review of the financial statements is already raising some issues.</p>	<p>Whilst I anticipated increased reliance on controls where appropriate when preparing my initial fee letter, I will continue to adopt a highly substantive audit approach in 2009/10 to ensure that material errors in the 2008/09 financial statements have not recurred.</p> <p>I will feed back the initial issues on the review of the financial statements for officer consideration.</p>

## Identification of specific risks

Risk area	Audit response
<p>Whilst we noted some improvements, working papers were inadequate in 2008/09. This led to a protracted audit whilst sufficient, appropriate audit evidence was gathered.</p>	<p>We agreed input into an accounts planning workshop to facilitate the necessary improvements.</p> <p>Should the necessary improvements to the accounts closedown processes not be secured, we will need to agree a further revision to the fee with you.</p>
<p>The 2009 SoRP includes a number of changes impacting the 2009/10 financial statements, including:</p> <ul style="list-style-type: none"> <li>• as a billing authority, changes in the way the Council recognises council tax and business rates (NNDR) expenditure, debtors and creditors within their financial statements;</li> <li>• a new disclosure for senior officer remuneration; and</li> <li>• early adoption of IFRIC 12 on service concessions.</li> </ul>	<p>I will check the disclosures in the financial statements comply with the requirements of the relevant and applicable accounting standards and the requirements of the 2009 SoRP.</p> <p>The initial technical consideration of the PFI arrangements proposed in the fee letter will be expanded to review the prior year adjustment in the financial statements and the associated disclosures. I will also review the overall process the Council has used to identify arrangements which may fall under IFRIC 12.</p>
<p>Work is not likely to be complete on the Council's grant claims by the time we reach our opinion on the financial statements.</p> <p>We are aware of correspondence from the Department of Communities &amp; Local Government (CLG) in respect of earlier qualification letters on the New Deal grant claims.</p> <p>Settlement of the benefit subsidy claim for 2008/09 remains outstanding, and the Department for Works and Pensions (DWP) may potentially reclaim subsidy in response to the qualification letter.</p>	<p>Where grant claim work is not complete I will carry out sufficient initial testing to provide sufficient assurance for my opinion on the financial statements.</p> <p>I will assess the latest position with both CLG and DWP and assess whether any potential liability is correctly accounted for.</p>
<p>The Council's significant contracts with CityCare ceased on 31 March 2010. There was a legal challenge over a contract award to Connaught, resulting in a financial settlement.</p>	<p>I will assess the appropriateness of the financial settlement.</p>

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# Testing strategy

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- 13 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.
- 14 Whilst our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing), given other work ongoing at the Council, we have not been in a position to carry out any early substantive testing. I will keep this under review for future years.
- 15 Wherever possible, we seek to rely on the work of Internal Audit. As stated in table 1 above, no reliance is possible for 2009/10.

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# Key milestones and deadlines

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- 16 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.
- 17 We have agreed with you a schedule of working papers required to support the entries in the financial statements.
- 18 Approximately 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.

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**Table 2**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Receipt of financial statements	30 June 2010
Forwarding audit working papers to the auditor	By 2 August 2010
Start of detailed testing	2 August 2010
Progress meetings	Approximately weekly
Present report to those charged with governance at the Audit Committee	September 2010 (date to be confirmed)
Issue opinion	By 30 September 2010

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# The audit team

19 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
Rob Murray District Auditor	r-murray@audit-commission.gov.uk 0844 798 5777	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Helen Devlin Audit Manager	h-devlin@audit-commission.gov.uk 0844 798 3048	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Tony Poynton Audit Team Leader	t-poynton@audit-commission.gov.uk 0844 798 3044	Manages and supervises the on-site part of the audit work. Key point of contact for the Chief Accountant.

## Independence and objectivity

- 20 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.
- 21 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

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

## The audit team

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### Quality of service

- 23** 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 Andy Perrin, Head of Operations.
- 24** 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.
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### Planned outputs

- 25** Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
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**Table 4**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	July 2010
Annual governance report	By 30 September 2010
Auditor's report giving an opinion on the financial statements	By 30 September 2010
Final accounts memorandum (to officers)	By 31 October 2010
Annual audit letter	By 31 December 2010

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### Sustainability

- 26** 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.
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# Appendix 1 – Basis for fee

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- 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.

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## Assumptions

- 3 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 planned and that financial statements issues found in 2008/09 will not recur in 2009/10;
  - you will inform us of significant developments impacting on the audit;
  - we are currently not in a position to place reliance on Internal Audit work for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by 2 August 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.
- 4 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

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- 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.

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

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# 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.

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## Copies of this report

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