

Audit Opinion Plan

Brighton and Hove City Council
Audit 2009/10

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Status of my 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 I propose to undertake for the 2009/10 audit of the Council's financial statements. 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

- 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. I undertake my audit work in the context of these responsibilities.
- 4 I comply with the statutory requirements governing my audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

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Fee for the audit of financial statements

- 5 The indicative fee for the audit is £367,895. The Audit Commission's work programme and fee scales for 2009/10 sets out the details of scale fees. Scale fees are based on several factors, including the type, size and location of the audited body.
- 6 The Audit Commission scale fee for the Council is £367,895. The fee proposed for 2009/10 is therefore at scale fee.
- 7 In setting the fee, I have assumed that:
 - risk for the audit of accounts is consistent with that for 2008/09; and
 - you will provide good quality working papers to support the financial statements.
- 8 Not meeting these assumptions means I need to undertake extra work that is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Appendix 1 provides more details on the basis for the fee.

Specific actions Brighton and Hove City 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, I will work with staff to identify any specific actions the Council could take and to provide continuing audit support.
- 11 This year I have looked to integrate my work on controls testing with Internal Audit's work. This should lessen duplication and maximise the efficiency of the audit. This approach has been partially successful. The work produced by Internal Audit was of a satisfactory quality and I can place reliance on it for my audit. The work was, however, not completed by the agreed deadline. This has an impact on my overall project plan for the audit and reduces efficiency. My team will liaise with Internal Audit on how improve this. I will continue to follow this integrated approach to the 2010/11 audit of the financial statements.

Auditors report on the financial statements

- 12 I will carry out the audit of the financial statements under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 13 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

- 14 As part of my audit risk identification work, I need to understand fully the audited body to identify any risk of material misstatement (whether caused by 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 controls within the Council's information systems.

Identification of specific risks

15 I have considered the risks to the current opinion audit and have set these out below.

Table 1 **Specific risks**

Specific opinion risks identified

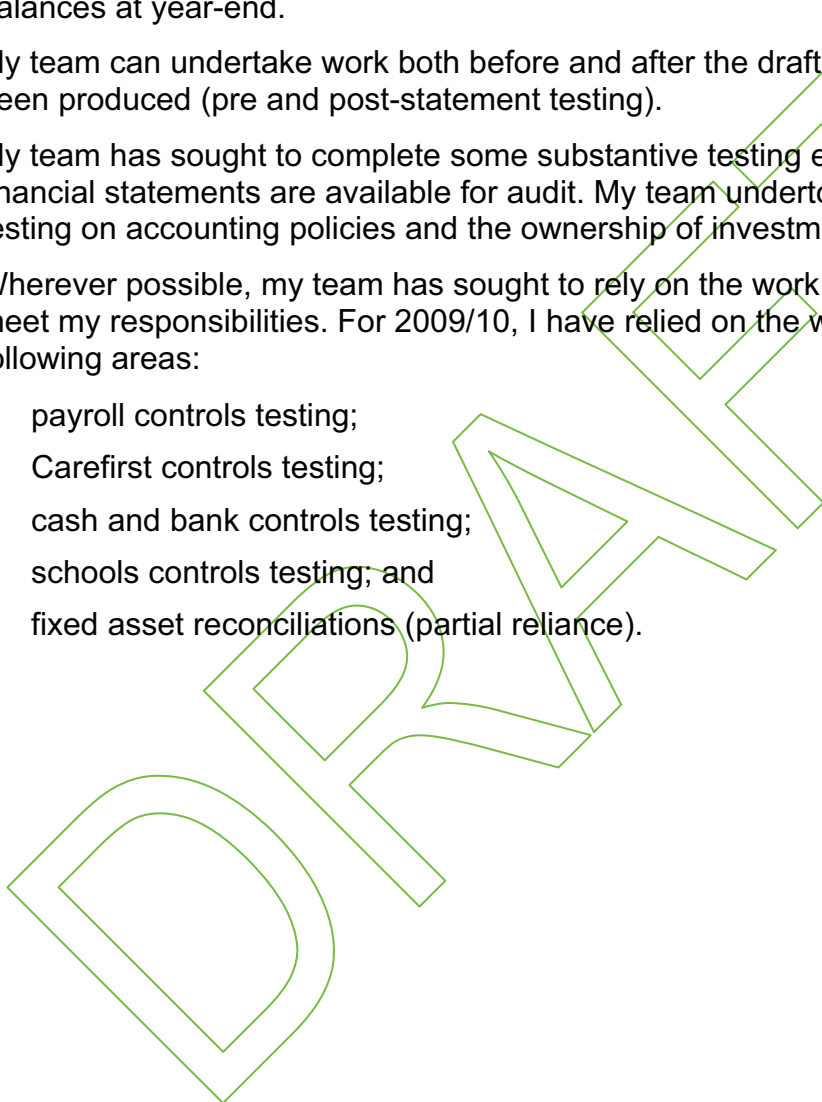
Risk area	Audit response
<p>The system of internal financial control is satisfactory overall. However, my team's work on the Council's main financial systems has identified some areas where there are weaknesses in the design or operation of controls in the systems.</p> <p>Appendix 4 sets out these weaknesses. The 2009/10 annual governance report will set out associated recommendations for improvement.</p>	<p>My team will design and undertake increased substantive testing to provide assurance the accounts are free from material error.</p> <p>Effective controls in all systems provide greater assurance to management and members, and allow my team to undertake its work more efficiently.</p>
<p>International Financial Reporting Standards (IFRS) will apply to local government financial statements from the 2010/11 financial year.</p> <p>However, the requirements of International Financial Reporting Interpretations Committee (IFRIC) note 12, service concession arrangements, will apply from 2009/10. The Council will therefore need to identify and account correctly for service concession arrangements in its 2009/10 financial statements. This has a particular impact on the Council's libraries, schools and waste management Private Finance Initiative (PFI) schemes, but not just these areas.</p>	<p>My team will undertake work to ensure the Council has identified and accounted correctly for material service concession arrangements.</p>
<p>The Council's joint waste management PFI with East Sussex County Council is a complicated contractual arrangement that has changed significantly since it began. The accounting treatment adopted for this in the Council 2009/10 financial statements will need to comply with the requirements of IFRIC 12, and should be consistent with that adopted by East Sussex County Council. Transactions to account for the waste PFI will impact across the income and</p>	<p>I have identified the accounting treatment adopted for the waste management PFI as a significant risk to my 2010/11 opinion on the financial statements.</p> <p>Technical specialists from our central technical services directorate have attended meetings with relevant officers from both Brighton & Hove City and East Sussex County Council throughout the year. Those specialists will undertake a review of the accounting treatment</p>

Risk area	Audit response
<p>expenditure account, balance sheet and some of the notes to the financial statements. Interpretation of the accounting rules is a subjective exercise.</p> <p>I am aware of an objection about this at East Sussex County Council.</p>	<p>adopted in the financial statements.</p> <p>I will need to assess whether there is a need for additional disclosure because of the objection.</p>
<p>The Council introduced a new fixed asset register, Asset 4000, during the 2008/09 financial year. As part of my 2008/09 post-statement audit work I noted that officers were unable to provide reports from Asset 4000 to support balances and disclosures appearing in the financial statements. I raised a recommendation to address this issue in my 2008/09 Annual governance report.</p>	<p>My team held meetings with finance officers during the year to track progress on this issue. My team has specified the working papers it will need from Asset 4000 as part of my 2009/10 working paper requirements. I will review the adequacy of reports from Asset 4000 as part of my post-statement work in this area.</p>
<p>The Council settled a significant part of its total equal pay liability during the 2008/09 financial year. At the end of 2008/09 there remained around £14m in the equal pay reserve. The 2009/10 financial statements should account for further settlement of the total liability.</p>	<p>My team will review equal pay entries in the 2009/10 financial statements to ensure they properly reflect relevant transactions during the period and accord with current guidance.</p>



Testing strategy

- 16 Based on risks identified above I will produce a testing strategy that will consist of testing key controls and substantive tests of transaction streams and material account balances at year-end.
- 17 My team can undertake work both before and after the draft financial statements have been produced (pre and post-statement testing).
- 18 My team has sought to complete some substantive testing early in the year before the financial statements are available for audit. My team undertook early substantive testing on accounting policies and the ownership of investments.
- 19 Wherever possible, my team has sought to rely on the work of Internal Audit to help meet my responsibilities. For 2009/10, I have relied on the work of Internal Audit in the following areas:
- payroll controls testing;
 - Carefirst controls testing;
 - cash and bank controls testing;
 - schools controls testing; and
 - fixed asset reconciliations (partial reliance).



Key milestones and deadlines

- 20 The Council needs to prepare the financial statements by 30 June 2010. I will complete my audit and issue my opinion by 30 September 2010. Table 2 details the key stages in producing and auditing the financial statements.
- 21 I will agree with you a schedule of working papers required to support the entries in the financial statements.
- 22 Every week, my team will meet with the key contact and review the status of all queries.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	Complete
Receipt of accounts	30 June 2010 (expected 23 June)
Sending audit working papers to the auditor	5 July 2010 (expected 23 June 2010)
Start of detailed testing	12 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	28 September 2010
Issue opinion	By 30 September 2010

The audit team

23 Table 3 shows the key members of the audit team for the 2009/10 audit.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	helen- thompson@audit- commission.gov.uk 0844 798 1790	Responsible for the overall delivery of the audit including the quality of audit reports and signing the opinion and conclusion.
Simon Mathers Audit Manager	s-mathers@audit- commission.gov.uk 0844 798 1776	Manages and coordinates the different parts of the audit work. Key point of contact for the Director of Finance and Resources.
Jeremy Jacobs Team Leader	j-jacobs@audit- commission.gov.uk 0844 798 6121	Deals with the day-to-day detail of the audit of the financial statements.
Jessica Grange Team Leader	j-grange@audit- commission.gov.uk 0844 798 6116	Deals with the day-to-day detail of the audit of the financial statements.

Independence and objectivity

- 24 I am not aware of any relationships that may affect the independence and objectivity of the audit team, 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 for independence and objectivity as summarised in Appendix 2.

Meetings

- 26 The audit team will update knowledge of your issues to inform risk-based audit through regular liaison with key officers. Appendix 3 sets out my proposals.

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 my service, please contact me first. Alternatively, you may wish to contact the South East Head of Operations, Neil Childs.
- 28** If I am unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The Audit Commission leaflet 'Something to Complain About' sets out the complaints procedure. This is available from the Commission's website or on request.

Planned outputs

- 29** I will discuss reports and agree them with officers before issuing to the Audit Committee.

Table 4 Planned outputs

Planned output	Indicative date
Opinion audit plan	29 June 2010
Annual governance report	28 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based on assessments of risk and performance. This means planning work to address areas of risk relevant to my audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment starts with identifying the significant financial and operational risks applying to the Council based on:
 - my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and continuing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the risk to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform me of significant developments on the audit;
 - Internal Audit meets proper professional standards;
 - you will provide good quality working papers and records to support the financial statements by 30 June 2010;
 - you will provide information within agreed timescales;
 - you will provide prompt responses to draft reports; and
 - extra work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will undertake added work that is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission 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 also 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 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 the auditor has charged the client; and
 - confirms in writing 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 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 incorrectly 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 some 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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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 My proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive; Director of Finance and Resources	DA and AM	Quarterly	General update plus: March - audit plan July - accounts progress September - annual governance report
Audit Committee	DA and AM, with TL as required	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as required

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in my 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 send documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as required; and
 - reducing travel.

Appendix 4 – Control Weaknesses

Table 6 Material Systems - Control weaknesses

System	Controls	Gaps/weaknesses	Risk	Action required
Payroll	Forms used to tell payroll of new joiners, leavers and changes in circumstances are properly authorised.	Only 33 out of 60 transactions tested by Internal Audit were properly approved.	Transactions may be processed wrongly or salaries paid wrongly.	Ensure all documentation supporting changes in the payroll database is properly completed, authorised and filed.
Payroll	Review and clear the payroll 'unactioned changes report' before running the payroll.	The payroll department does not keep any evidence to prove this check is systematically undertaken.	Changes which have not been properly processed may not be corrected.	Keep evidence that the unactioned changes report is reviewed and cleared for each payroll run.
Payroll	Check and authorise changes in payroll system parameters.	There was no evidence that changes in the system parameters were subject to checking and authorisation by a senior manager.	The system parameters (rates of taxation etc.) may be incorrectly set.	A senior manager checks and authorises any amendment to system parameters..

Appendix 4 – Control Weaknesses

System	Controls	Gaps/weaknesses	Risk	Action required
National Non-Domestic Rates	Changes to discounts and exemptions are subject to a check by team leaders to ensure they have been correctly processed	A check of 10% of the changes processed should be undertaken. No checks had been made from July 2009 to November 2009.	Errors could go undetected.	Checks should be undertaken systematically and regularly throughout the year. Evidence of checking should be kept.
General Ledger - Journal controls	Journals are supported by narrative and supporting documentation is filed on a shared drive and a file path is provided with links to the journal reference.	Manual journal entries processed between directorates are not subject to formal check and authorisation.	Errors could go undetected.	The Council should ensure manual journals are formally checked and approved.
Carefirst	Clients are only entered on the system when the necessary forms are completed and approved having gone through the referral and assessment process.	In two of twenty cases tested by Internal Audit no evidence had been kept to prove the referral and assessment process had been properly completed.	Clients could be entered and payments made without authorisation.	Documentation and authorisation should be kept for all clients where payments are being made.
Carefirst	The process for accepting new suppliers/homes requires authorisation from contracts manager	In two of twenty cases tested by Internal Audit the request form was not properly approved.	Payments could be made to suppliers who do not meet the Council's criteria.	All new suppliers should be supported by correctly approved documentation.

Appendix 4 – Control Weaknesses

System	Controls	Gaps/weaknesses	Risk	Action required
Schools	A monthly reconciliation of all income and expenditure takes place for each school between the school's monthly return and the general ledger.	There is evidence of reconciliation where the school sends a monthly return. However this is not a compulsory process and is not checked centrally.	Discrepancies may not be detected.	All schools should be required to send a monthly return. A programme of periodic reconciliation should be set up and followed.
Accounts payable	Invoices are produced from the system by the Financial Information Services team at Hove Town Hall.	There is no evidence of checking that invoices produced and delivered to the debtors' team are complete.	Invoices processed on the system may not be properly dealt with.	Introduce a check on the completeness of the invoices processed.

