

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**EXTERNAL AUDIT - AUDIT OPINION PLAN AND FEES 2009/2010**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To consider the Audit Opinion Plan and Fee for 2009/2010.
- 1.2 The plan provides details of external audit's proposed work and fee for the 2009/2010 audit.

**2. BACKGROUND INFORMATION**

- 2.1 The Audit Opinion Plan details external audit's proposed work and fee for 2009/2010 and is based on the risk based approach to audit planning as set out in their Code of Practice and mandated work determined by the Commission. A copy of the letter is attached at appendix A.
- 2.2 Fees will be reviewed and updated as necessary as audit work that impacts on the audit planning process for the 2009/2010 audit is completed.

**3. OPTIONS FOR CONSIDERATION**

- 3.1 The Audit Committee is invited to consider external audit's Audit Opinion Plan and Fee and proposed work and should seek clarification from the Audit Commission as necessary.

**4. ANALYSIS OF OPTIONS**

- 4.1 The plan is the result of a risk assessment and complies with statutory requirements governing external audit and inspection work. This means that work will be targeted to have its greatest effect and helps the council to continue to improve.

**5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 Audit fees are met within existing budgets For 2009/2010 the planned fees as set out in external audit fee letter dated 18<sup>th</sup> March and presented to the Audit Committee on 20<sup>th</sup> April 2009 are:

<b>Audit area</b>	<b>Planned fee 2009/10</b>
Audit including WGA (Whole of Government Accounts)	129,416
Use of Resources/ VFM Conclusion [including risk-based audit work and DQ]	96,318
<b>Total Audit Fee</b>	<b>225,734</b>
Inspection fee	-
Managing Performance	16,630
<b>Total fee</b>	<b>242,364</b>
<b>Grants</b>	55,000

5.2 There are no staffing, property or IT implications.

**6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 External Audit and inspection duties are statutory requirements under the provisions of the Audit Commission Act 1998, the Code of Audit Practice and the Local Government Act 1999.

6.2 The work and proposed fee is based on the Audit Commission's risk-based approach to audit planning. Throughout the year work is targeted to have best effect based on risk assessment and performance. More details of risk assessments are contained within the plan. There are no environmental, diversity, Section 17 or other implications.

**7. OUTCOMES OF CONSULTATION**

7.1 A draft of the plan has been discussed and agreed with the Chief Executive and Service Director Finance

**8. RECOMMENDATION**

8.1 The Audit Committee agrees the Audit Opinion Plan and proposed audit fee for 2009/2010.

SERVICE DIRECTOR FINANCE

Pittwood House  
Ashby Road  
SCUNTHORPE  
North Lincolnshire  
DN16 1AB

Author: C Andrews

Date: 11 January 2010

**Background Papers used in the preparation of this report**

Audit Opinion Plan – Audit 2009/2010 (attached as appendix to this report)

# Audit Opinion Plan

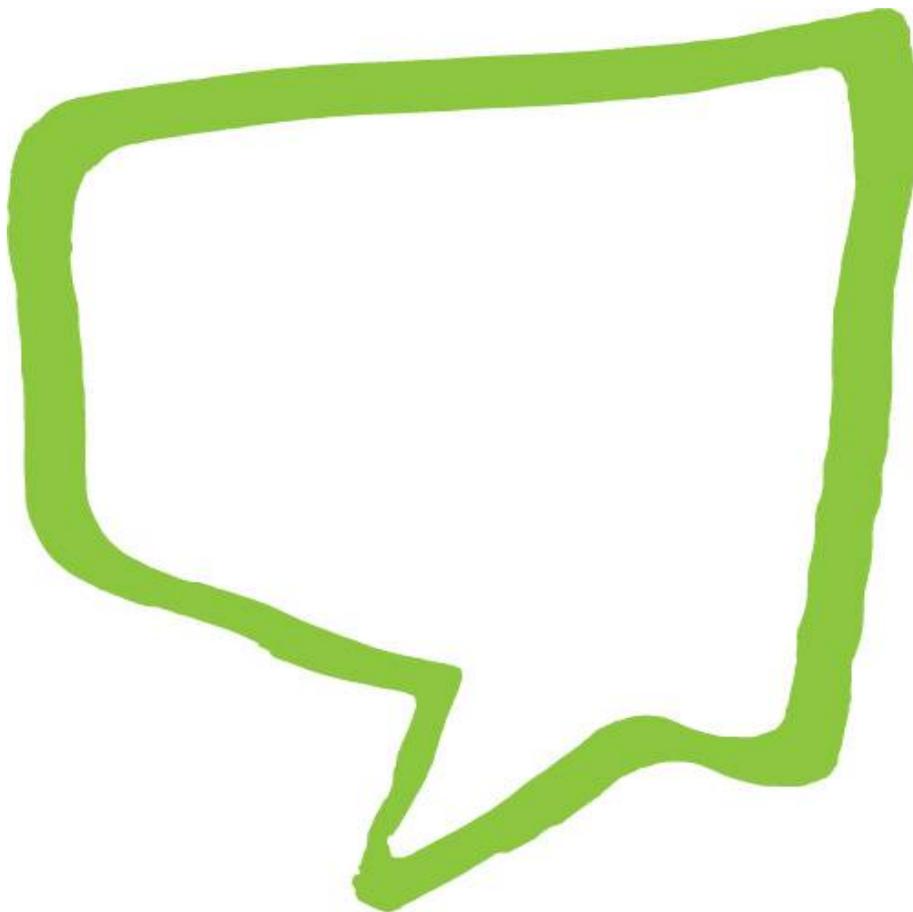
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North Lincolnshire Council

Audit 2009/10

January 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.

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# Fee for the audit of financial statements

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- 5 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body. The fee for the audit is £242,364, as indicated in my letter of 18 March 2009.
- 6 Here is a breakdown of the fee in Table 1 below.

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**Table 1      Audit fee**

<b>Audit area</b>	<b>Planned fee 2009/10</b>
Audit including WGA (Whole of Government Accounts)	129,416
Use of Resources/ VFM Conclusion [including risk-based audit work and DQ]	96,318
<b>Total Audit Fee</b>	<b>225,734</b>
Inspection fee	-
Managing Performance	16,630
<b>Total fee</b>	<b>242,364</b>
Estimated Grants Fee	55,000

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- 7 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of accounts is consistent with my initial risk assessment in March 2009; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review.
- 8 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, we will discuss this in the first instance with the Service Director Finance 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 the 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 you could take and to provide ongoing audit support.

# Auditors report on the financial statements

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- 11 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).
- 12 I am required to issue an audit report giving my opinion on whether your accounts 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

- 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 your business risks, including assessing your own risk management arrangements;
  - considering your financial performance;
  - 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

14 I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 2 Specific risks**  
Specific opinion risks identified

<b>Risk area</b>	<b>Audit response</b>
<i>Control failures across all financial systems particularly the General Ledger, Creditor Payments and Payroll systems. These matters were reported to you.</i>	<i>We will review the work of internal audit and assess the level of assurance we can gain from your framework of internal control.</i>
<i>Deferred Government Grants - amendments seen in both 2007/08 and 2008/09.</i>	<i>We plan to review detailed your working papers before the end of the financial year and re-assess risk of mis-statement.</i>
<i>Regulatory requirements compliance with the statement of recommended practice (SORP) such as the changes to the collection fund disclosures and IFRS preparation.</i>	<i>We will review the Council preparation to IFRS and response to most recent SORP changes before the end of the financial year.</i>
<i>Valuation of Investments particularly those at Icelandic Banks which maybe at risk.</i>	<i>We plan to test valuations against the latest CIPFA guidance and details from administrators.</i>

# Testing strategy

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- 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. Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities in accordance with the detailed listing of controls previously issued.

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# Key milestones and deadlines

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- 16 You are required to prepare the financial statements by 30 June 2010 and I am required to complete the audit and issue my 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 will agree with you a schedule of working papers required to support the entries in the financial statements.

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**Table 3**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	February - May 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	7 July 2010
Start of detailed testing	7 July 2010
Progress meetings	Weekly and as required
Present report to those charged with governance at the Audit committee	September 2010
Issue opinion	By 30 September 2010

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# The audit team

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18 The key members of the audit team for the 2009/10 audit are shown in the table below.

**Table 4      Audit team**

Name	Contact details	Responsibilities
Mark Kirkham District Auditor	<a href="mailto:M-Kirkham@audit-commission.gov.uk">M-Kirkham@audit-commission.gov.uk</a> 0844 798 6632	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Rob Walker Audit Manager	<a href="mailto:RJ-Walker@audit-commission.gov.uk">RJ-Walker@audit-commission.gov.uk</a> 07815 876297	Manages and coordinates the different elements of the audit work. Key point of contact for the Service Director Finance.

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## Independence and objectivity

19 I have identified the following relationship that might affect objectivity and independence and have put appropriate safeguards in place.

**Table 5      Relationships and safeguards**

Relationship	Safeguard
The Audit Team Leader, Sherie Newbould, is a former employee of the Council. And worked in the Education Department.	Close manager supervision of any audit work involving Education or former colleagues work.

20 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.

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## Meetings

21 We will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

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### Quality of service

- 22** I am 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 Sub-region Head of Operations Dave Allsop [d-allsop@audit-commission.gov.uk](mailto:d-allsop@audit-commission.gov.uk)
- 23** 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

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

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**Table 6**      **Planned outputs**

Planned output	Indicative date
Opinion audit plan	January 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum	November 2010

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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:
  - There is no increase in the level of risk identified during our initial planning exercise in March 2009;
  - you will inform us 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 we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements;
  - 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.

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# 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.

## 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 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.

# 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 7 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Director of Corporate Services	AM and Team Leader (TL)	Quarterly	General update
Corporate Accountant	AM and Team Leader (TL)	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report 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.

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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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