

Audit plan

Suffolk County Council

Audit 2010/11

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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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Introduction

This plan sets out the 2010/11 audit work that I propose to undertake for the audit of financial statements and the value for money conclusion.

1 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 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

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Responsibilities

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.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I 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

The fee for the audit is £223,500, as set out in my letter of 16 April 2010.

4 The Audit Commission scale fee for the Council is £259,082. The fee proposed for 2010/11 is 13.7 per cent below the scale fee.

5 In recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission confirmed that it would subsidise the 'one off' cost of transition to IFRS for local authorities in 2010/11. You received a rebate from the Audit Commission equating to 6% of the scale fee in April 2010.

6 The Audit Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed until December 2010. The consultation proposes a 3.5% rebate against the scale fee to reflect these new arrangements. The Audit Commission Board will consider responses to its consultation about fees at a meeting on 15 February.

7 In setting the fee, I have assumed that:

- the overall level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review during our interim visit.

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, I will discuss this first with the Head of Strategic Finance and I 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, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

11 There are a number of technical changes which are applicable to the financial statements for local authorities in 2010/11. These changes apply to all local authorities and are contained in the Code of Practice on Local Authority Accounting (The Code) issued by the professional accounting bodies. Officer attendance at our workshop held in January 2010 should have enabled officers to focus attention on the key changes this year.

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Auditors report on the financial statements

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 the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

13 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

14 I need to understand fully your organisation 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's information systems.

Identification of opinion specific risks

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

Table 1: **Opinion risks**

Specific opinion risks identified

Risk area	Audit response
<p>International Financial Reporting Standards (IFRS)</p> <p>Local authorities are now required to prepare financial statements under the International Financial Reporting Standards (IFRS), as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). There is a risk that the 2010/11 financial statements do not meet the new requirements.</p>	<p>We will review and test whether the Council has:</p> <ul style="list-style-type: none"> – identified those transactions and balances that will be affected by the transition to IFRS; – adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS; – appropriately restated 2009/10 transactions and balances in accordance with the adopted accounting policies and IFRS; and – made all appropriate disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.
<p>Group accounts</p> <p>The Council should complete an annual assessment to determine whether there are any additional entities that are now captured under group accounts arrangements.</p> <p>Following changes under IFRS and the Code of Practice there is a risk that potential entities may not have been identified that now fall within the group boundary as defined by the Code.</p>	<p>Review the Council's assessment and identification of potential group entities.</p>

Testing strategy

On the basis of risks identified above I 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.

15 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

16 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- IFRS restatement
- Review of accounting policies
- Bank reconciliation
- Journals
- Investments
- Year-end feeder system reconciliations
- Group accounts assessment
- Elements of fixed assets
- Elements of income and expenditure.

Where I identify other possible early testing, I will discuss it with officers.

Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. The fee for 2010/11 assumes that I can use the results of their work on the main financial systems.

17 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors and experts in the following areas:

- Fixed asset revaluations and impairments - the Council's appointed valuer and Gerald Eve
- Pension fund and IAS19 disclosures - Hymans Robertson and Suffolk Pension Fund's external auditor (also Audit Commission).

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

18 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

19 I will plan a programme of VFM audit work based on my risk assessment. The specific risks identified at this stage are noted in the table below.

Table 2: **Value for money risks**

Specific value for money risks identified

Risk area	Audit response
<p>Comprehensive Spending Review</p> <p>The economic downturn and the international banking crisis have had a significant impact on public finances over the last two years.</p> <p>The government's spending review aims to achieve efficiency and value for money and challenge local authorities to fundamentally change the delivery of services so more power lies in the hands of individuals and front-line professionals.</p> <p>Significant cuts in government grant which will impact in each year up to 2014/15 and rising demand pressure on local services could lead to a funding gap.</p>	<p>Review how the Council will secure financial resilience and prioritise its resources during this challenging period, whilst operating within tight financial restraints.</p>

Risk area	Audit response
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New Strategic Direction

The Council recognise the impact on Suffolk and Suffolk County Council of the current challenging economic environment, and in response have developed the New Strategic Direction programme. The strategic model has three key themes:

- Supporting and strengthening local democracy
- Enabling and encouraging more responsive and cost effective services, by putting budgets in the hands of individuals and communities.
- Working with communities, so they are more able to look after their own needs and to take more control over their lives.

Work closely with officers and members on the Council's response to the tighter fiscal environment it faces. Monitoring the implementation of the new strategic direction programme and assessing how the new arrangements still ensure effective governance and value for money.



Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

20 The key stages in producing and auditing the financial statements are in Table 2.

21 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

22 During the detailed testing phase in July, August and September the audit team will meet with key contacts and review the status of all queries on a regular basis, depending on the need and the number of issues arising.

Table 3: **Proposed timetable**

Activity	Date
Control and early substantive testing	30 April 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	July 2011
Progress meetings	Ongoing
Present report to those charged with governance at the audit committee	By 30 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Neil Harris District Auditor	neil-harris@audit- commission.gov.uk 0844 798 2414	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Philip King Audit Manager	p-king@audit- commission.gov.uk 0844 798 5556	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Strategic Finance.
Tina Meyer Audit Manager	t-meyer@audit- commission.gov.uk 0844 798 3059	Leads on our work focussing on the New Strategic Direction.

Independence and objectivity

23 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

24 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

25 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

26 I aim to provide you with a high quality audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

27 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

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

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	By 30 September 2011
Auditor's report giving an opinion on the financial statements	By 30 September 2011
Final accounts memorandum (to officers)	November 2011
Annual audit letter	By 31 December 2011

Appendix 1 Basis for fee

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.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my 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

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 identified for 2009/10;
- you will inform me 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 I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

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

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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 fees 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.

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 and Audit Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

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.

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 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 seven years, with additional safeguards in the last 2 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.

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

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

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Head of Strategic Finance	DA and AM	March, July, September	General update plus: March - audit plan July - accounts progress September - annual governance report
Audit Committee	DA and AM	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

The Audit Commission is committed to promoting sustainability in our 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 submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.