

# Audit plan

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Cambridge City Council

Audit 2010/11

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

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.

# 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 my audit work, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice.

## Fee for the audit

### **The fee for the audit is £120,009, as set out in my indicative fee letter of 6 April 2010.**

4 The Audit Commission scale fee for Cambridge City Council is £145,900. The fee proposed for 2010/11 is 17.75 per cent below the scale fee and is at the limit of variation specified by the Commission.

5 In April 2010, the Commission, as regulator, made a payment to the Council of £8,826 to offset the increased audit costs arising from the introduction of International Financial Reporting Standards (IFRS).

6 Subsequently, the 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 the light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed until December 2010 with a 7 January 2011 response date. Following consultation the Commission published its final work programme and scale of fees 2010/11 on 25 February 2011. This included a further rebate to district councils of 1.5 per cent of the 2010/11 scale fee, which equates to £2,188 for the Council.

7 In setting my fee, I have assumed that:

- the 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 IFRS; and
- Internal Audit undertakes appropriate work on all material systems.

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 Director of Resources 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 Cambridge 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 that the Authority could take and to provide ongoing audit support.

# 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).**

**11** 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**

**12** 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**

**13** I need to understand fully 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's information systems.

## Identification of specific risks

**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>The introduction of IFRS as the basis for the preparation of local government accounts is a significant change. It requires detailed analysis and retrospective adjustments to a number of accounting policies, practices and comparatives. The Council will have to apply IFRS to its 2010/11 financial statements, including the restatement of prior years.</p>	<p>To work with the Council as you identify:</p> <ul style="list-style-type: none"><li>■ which of the new standards will impact on the Council;</li><li>■ how they will impact;</li><li>■ the restatement impact of the changes; and</li><li>■ the amendments to accounting and non financial systems that will be required.</li></ul> <p>Audit the restatement of comparatives and the 2010/11 financial statements.</p>
<p>Risks arising from a fluctuating economic climate and the resultant impact on the value of land and buildings, investments and pension deficits.</p>	<p>I will examine the Council's documentation of its considerations regarding the need for an impairment review. I will consider any revaluations that have been carried out and obtain external confirmation of investments held and pension deficits.</p> <p>Specifically I will review the accounting in respect of the recovery of investments in two Icelandic banks.</p>

### Value for money risks

**14** I have carried out an initial risk assessment for the vfm conclusion and discussed this with officers in March 2011. On the basis of this I will carry out some limited further work later in the year and communicate any further risks to you then. There are no specific risks identified at this point that I need to communicate to you.

# 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 will be carried out early.

- restatement of the 2009/10 financial statements to reflect the introduction of IFRS;
- review of accounting policies;
- testing of legal and professional expenditure; and
- testing of pension fund contributions.

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

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11 specifically, I expect to be able to use the results of the following pieces of work.

- Accounts payable;
- Payroll; and
- Housing rents.

**18** 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 in the following area:

- Assurance relating to the valuation of the Local Government Pension Scheme (LGPS) from PricewaterhouseCoopers, the appointed auditor of Cambridgeshire Local Government Pension Fund.

**19** I plan to rely on centrally obtained assurance from the Audit Commission in respect of the work of:

- Hymans, regarding their overall approach to the actuarial valuation of the LGPS; and
- District Valuer, regarding their overall approach to the valuation, revaluation and impairment of non current assets.

**20** I will also review the specific valuations supplied against national information supplied by the Audit Commission for pension funds. The work of the District Valuer and Bidwells will be compared to regionally based valuation movements obtained by the 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.**

**21** 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.

**22** As set out in paragraph 14 I have carried out an initial risk assessment for the vfm conclusion and discussed this with officers. There are no specific risks identified at this point that I need to communicate to you. I will plan a programme of VFM audit work based on my risk assessment.

## 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.**

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

**24** 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.

**25** Every week, during the on site audit visits, the audit team will meet with the key contact and review the status of all queries. Additionally meetings will be arranged if necessary depending on the number of issues arising.

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Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	January 2011
Receipt of accounts	29 June 2011
Sending audit working papers to the auditor	1 July 2011
Start of detailed testing	4 July 2011
Progress meetings	At least weekly when on site
Present report to those charged with governance at the Civic Affairs Committee	14 September 2011
Issue opinion and value for money conclusion	14 September 2011

# The audit team

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

Table 3: **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Paul King District Auditor	paul-king@audit- commission.gov.uk 0844 798 5811	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and VFM conclusion, and liaison with the Chief Executive.
Neil Gibson Audit Manager	n-gibson@audit- commission.gov.uk 0844 798 4142	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources and Head of Accountancy Services.
Josie Gowler Team Leader	j-gowler@audit- commission.gov.uk. 0844 798 5812	Responsible for day to day supervision of the audit team. Key point of contact for the Accountant (Projects and Publications).

## Independence and objectivity

**26** 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.

**27** 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

**28** The audit team will ensure I have knowledge of your issues to inform my risk-based audit through regular liaison with key officers. My proposals are set out in Appendix 3.

## Quality of service

**29** I aim to provide you with a fully satisfactory 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.

**30** 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

**31** My team will discuss and agree reports with the right officers before issuing them to the Civic Affairs Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	late August 2011
Auditor's report giving an opinion on the financial statements	14 September 2011
Final accounts memorandum (if required)	October 2011
Annual audit letter	November 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 my 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 accounts is consistent with that for 2009/10;
- the fee for the VFM conclusion is the same as for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- you provide:
  - good quality working papers and records to support the financial statements by 1 July 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work that would be 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 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.

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 Civic Affairs 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 (i.e. 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.

## Appendix 3 Working together

### Meetings

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

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive Officer/Director of Resources	DA and AM	Quarterly	General update plus: February - audit plan June - accounts progress September - annual governance report November - annual audit letter
Head of Accountancy/ Accountant (Projects and Publications)	AM and/or TL	Quarterly and weekly when on site in January, July and August	Update on audit issues
Head of Internal Audit/Deputy Head of Internal Audit	AM and/or TL	Quarterly	Update on audit issues and work programme progress
Civic Affairs Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual audit letter Other issues as appropriate

## Sustainability

The Audit Commission is committed to promoting sustainability in working practices and I will actively consider opportunities to reduce the 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 the full 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. The Civic Affairs Committee has been designated as fulfilling the position of audit committee at Cambridge City Council.

## **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.

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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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