

Opinion update

Chichester District 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 your financial statements and my value for money conclusion for 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.

2 I issued my early audit plan for 2010/11 to you on 26 April 2010. This outlined the work that I proposed to undertake to satisfy my responsibilities under the Audit Commission's Code of Audit Practice.

3 I am required by the code of audit practice to update my assessment of risks and proposed audit coverage to ensure my audit remains proportionate and risk based. This report sets out the results this for my 2010/11 audit.

4 I am also required to specify the detailed risks that I am considering as part of my opinion work. I have set these out below with my approach to identifying opinion audit risks.

5 Finally, this report sets out for you the results of my prestatements audit and work completed so far on your transition to International Financial Reporting Standards.

Independence

In my professional view, I can conduct this audit without threat to my independence and objectivity

6 I am required by auditing standards to;

- disclose in writing to you relationships that may bear on my objectivity and independence and the safeguards I have put in place to protect against these threats; and
- confirm to you in writing that the APB's ethical standards are complied with and that, in my professional judgement, I am independent and my objectivity is not compromised.

7 Following the appointment of an ex-Audit Commission employee to a temporary post within the Council a new engagement team has been appointed to your audit. Details of the new team are set out in Appendix 1.

8 In my professional view, there are no relationships that I am required to disclose to you and I can confirm that I can conduct this audit without threat to my independence and objectivity.

Code audit refresh

My initial risk assessment remains unchanged

9 I agreed my plan with the Corporate Governance and Audit Committee on 24 June 2010. At that time I reported to you my assessment of significant risks impacting on my code of practice responsibilities and how I planned to respond to them.

10 I have now updated this early risk assessment to ensure my work remains proportionate and risk based.

Table 1: **Audit plan 2010/11**

Refreshed response to audit risks

Risk and Planned response	Actual response to risk
Transition to International Financial Reporting Standards. I planned to consider your risk assessment process and gap analysis to inform my audit of your restated accounts.	I assessed your arrangements to management this transition as 'on track'. I am currently auditing your opening balances and comparatives. Progress on this is set out in the IFRS section of this report.

Auditors report on the financial statements

My audit of your financial statements will commence on 18 July 2011

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 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 identify any risk of material misstatement (whether because of fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identifying opinion audit risks

There are a number of opinion specific risks which I have planned a suitable response to

14 As part of my audit I have considered if my continuing work with the Council has identified any risk of material misstatement (whether because of fraud or error) in the financial statements. This requires me to:

- establish the nature of the Council's activities;
- identify the business risks facing the Council, including assessing your own risk management arrangements;
- consider the financial performance of the Council; and
- review your control environment, IT control environment and Internal Audit.

15 To assess your internal controls I identified and confirmed my understanding of the Council's material information systems. The results of this work are included within the 'prestatements audit' section of this report.

16 I set out the specific risks that may be appropriate to my current opinion audit below.

Table 2: **Specific risks**

Specific opinion risks identified

Risk Area	Issue and response
New Fixed Asset register	<p>A new Fixed Asset register was implemented in 2010/11 and is being used in to prepare your financial statements.</p> <p>I plan to undertake detailed testing of property, plant and equipment figures in your financial statements to gain assurance that these accounting entries are not materially misstated.</p>
Calculation of Fair Values	<p>The Council has a significant investment portfolio and calculates the fair value of these investments in-house.</p> <p>I understand that an officer has received training on this technical accounting area and I will undertake detailed testing on the estimates of fair value included for investments in your financial statements.</p>

Risk Area	Issue and response
<p>On 14 April 2011 CIPFA's issued LAAP Bulletin 88 to highlight issues that may cause authorities difficulties when closing the 2010/11 accounts.</p>	<p>I will consider each of the following areas within my audit and risk planning process:</p> <ul style="list-style-type: none"> ■ Accounting for grants and contributions. ■ Disclosure of assets and liabilities as current or non-current. ■ Notes to support the 'third' balance sheet on IFRS restatement. ■ Accumulated depreciation and accumulated impairment. ■ Heritage and community assets (disclosure requirements). ■ Changes to Pension calculations.

17 Based on the 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.

18 I am also required to obtain specific information from management to support my judgement of internal controls and risks. I have recently received this information from management and I am currently considering it. Any more work will be undertaken at the post-statement stage of my audit.

International Financial Reporting Standards

The Council is now in a good position to prepare IFRS compliant accounts in time for my audit during the Summer

19 My involvement in auditing your restated accounts is summarised in the table, below

Table 3: **IFRS audit stages**

There are three stages to the IFRS audit

Audit Stage	Scope	Timing
Stage 1	Arrangements review of progress in preparing restated opening balance sheet and translation adjustments.	November 2010 to January 2011
Stage 2	Review of restated opening balances at the IFRS transition date 1 April 2009. Review of restated comparators for 2009/10.	April - May 2011
Stage 3	Audit of 2010/11 accounts being first-time reporting under IFRS.	August to September 2011

Stage 1- Arrangements Review

20 Over the past 18 months I have completed several risk assessments of the Council's progress towards implementing International Financial Reporting Standards. I also commented on your progress in my 2009-10 Annual Audit Letter.

21 A summary of my conclusions are shown below. It uses the following traffic light system:

- Red - not 'on track' or major issues to resolve
- Amber - minor issues to resolve
- Green - 'on track' to produce IFRS compliant accounts

■

Table 4: **IFRS preparations**

Date of assessment	Result
November 2009	Amber
July 2010	Amber
January 2011	Amber

22 The Council were assessed as "Amber" in the January assessment because the Council was still preparing a set of 2009/10 comparative figures then. This position was common to many Local Authorities and did not create a significant concern about your ability to meet statutory deadlines.

23 My current view is that the Council is in a good position to prepare IFRS compliant accounts in time for my audit during the Summer. Over the winter and spring, you received informative reports setting out the Council's progress. As those charged with governance, you may wish to ensure that IFRS knowledge is captured and embedded to build resilience and good financial reporting in future periods.

Stage 2 - Restated balances and comparators

24 Much of the supporting work to restate your balances and comparators were available to me to review from 28 March 2011, although this did not include completed skeleton accounts.

25 So far I have:

- reviewed your proposed accounting policies and key areas of judgement; and
- audited your restated opening balance sheet as at 31 March 2009.

26 The only comment I have made to management as a result of this exercise is to ensure that any segmental reporting analysis included in your accounts reflects internal reporting arrangements rather than merely a BVACOP analysis.

27 I do not have any other issues to report to you from this work, although Members of the Committee will be aware that I will not finish my work on this area until my audit of your financial statements in the Summer.

Pre-Statements Audit

I have completed my review of your internal controls. There are no issues to report to you as 'those charged with governance'

28 I have now completed my Pre-Statements audit.

29 The audit has been carried out to be ISA (International Standards on Auditing, United Kingdom and Ireland) compliant under the new Code of Audit Practice. The ISAs were introduced by the Auditing Practices Board, applying to all accounting periods starting after 15 December 2004.

30 The work completed so far is as follows.

- Stage 1: carry out a risk assessment of the general environment within which the Council's information systems run.
- Stage 2: document the systems that provide material figures in the financial statements.
- Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is performing as stated.
- Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and gain evidence that they are working as intended.

31 This work identifies the extent to which I can gain assurance from the controls the Council has put in place, and informs my testing strategy once the financial statements have been presented for audit.

32 I identified the following information systems as being material for my opinion purposes and conducted detailed testing on a sample of these systems under ISA(UK&I) 315

Table 5: **Financial Systems coverage 2010/11**

System/ area	Detailed Testing	Conclusion
General Ledger	Reliance placed on the work of Internal Audit supplemented by our testing of key controls.	I can rely on the operation of controls in this system to support my opinion.
Housing Benefits	Reliance placed on the work of Internal Audit supplemented by our testing of key controls.	I can rely on the operation of controls in this system to support my opinion.

System/ area	Detailed Testing	Conclusion
Cash and Bank	Reliance placed on the work of Internal Audit supplemented by our testing of key controls.	I can rely on the operation of controls in this system to support my opinion.
NNDR	Reliance placed on the work of Internal Audit supplemented by our testing of key controls.	I can rely on the operation of controls in this system to support my opinion.

33 As mentioned in Table 2, the Council has been implementing a new asset register system for 2010/11, this had not been implemented at the time of our pre-statement work, and therefore we have not identified any controls or tested them. I will undertake detailed substantive testing on fixed assets to gain assurance to support my opinion

34 To support my work in these areas I have also undertaken a review of the overall and IT control environments. Overall I can place reliance on the IT environment in operation at the Council.

35 There are no significant issues from this work that you, as 'those charged with governance' should be aware of.

Value for money conclusion

My work to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness is ongoing

36 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.

37 So far, my interim findings from my work are as follows:

Table 6: **VFM interim findings**

Table header	
Managing financial risk and delivering a stable financial position	<p>You took early action to respond to the challenges of the spending review.</p> <p>A new Financial Plan was adopted in November 2010 setting the principles underpinning financial decisions as well as your 5-year financial modelling.</p> <p>Measures are in place to deliver your 2011/12 budget without using your reserves.</p> <p>Officers are working on updating your medium term financial plans, but some generic uncertainties about national strategy exists over the longer term.</p>
Prioritising resources within tighter budgets	<p>You have a good strategic approach to challenging areas of spend and to reducing baseline costs.</p> <p>The Council's project for transforming services has driven this since 2009 resulting in over £3.1m of costs being removed.</p> <p>You have also previously comprehensively reviewed your asset management and capital programmes.</p> <p>Comparative information and benchmarking continues to be used where useful.</p>

Source: Audit work to date

38 There are some areas where I wish to do more work. These are outlined below;

- Historically, the Council has considered alternative service delivery choices and decided to keep services 'in-house'. Given the changing national picture, I will consider how you are continuing to evaluate how best to deliver local services.

The Council has continually reviewed the suitability of targets used for performance monitoring but officers accept that more work needs to be done to define a smaller custom-built set of local indicators measuring the impact and outcome of corporate priorities and actions. My work will consider how to intend to progress this.

- Finally, I will update my assessment of your ongoing work to deliver a stable financial position once the out-turn for 2010/11 is reported and more detail of actions to balance your 2012/13 budget are known.

Key milestones and deadlines

I plan to issue my opinion on your statements and VFM conclusion by 30 September 2011

39 The Council is required to approve its financial statements by 30 September 2011. I aim to complete my audit and issue my opinion before this date. The key stages in the process of producing and auditing the financial statements are shown in Table 6.

Table 7: **Proposed timetable**

Task	Deadline
Control and early substantive testing	March - April 2010
Receipt of accounts	July 2011
Start of detailed testing	18 July 2011
Section 15 date	8 August 2011
Progress meetings	As agreed
Present report to those charged with governance at the Audit Committee	15 September 2011
Issue of opinion	15 September 2011 (planned)
WGA return	30 September 2011 (planned)

Audit fees

Your audit fee remains at £113,250

40 In my original audit plan, the fee for the code audit was based on my best estimate at the time and agreed at £113,250. I will contact you if there is any change to this.

Table 8: **Fee comparison**

Table header	Planned and actual 2010-11	Actual 2009-10
Financial statements	£77,000	£70,000
VFM conclusion	£34,150	£34,500
WGA	£2,100	£2,000
Total Audit fee	£113,250	£106,250
Certification work	£30,000 (estimate)	£27,099

41 I will continue to review this assessment. If my assumptions relating to the size or impact of the issues identified here prove inaccurate, or if new issues arise, then I will discuss the fee implications of this with the District Treasurer as soon as practicable.

Appendix 1 Your audit team

The key members of the audit team for the 2010/11 audit

Table 9: Audit team

Name	Contact details	Responsibilities
Patrick Jarvis Engagement Lead	p-jarvis @audit- commission.gov.uk	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mark Catlow Audit Manager	m-catlow@audit- commission.gov.uk	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

1 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.

2 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.

Appendix 2 Independence and Objectivity

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

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.

4 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.

5 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.

6 The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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