

# Audit Opinion Plan

London Borough of Tower Hamlets

Audit 2009/10

March 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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# Summary

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- 1 This plan sets out the audit work that we propose to undertake for the audit of the 2009/10 financial statements. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
  - audit work specified by the Audit Commission for 2009/10;
  - current national risks relevant to your local circumstances; and
  - your local risks.

### Audit fee

- 2 The audit fee for the financial statements is £310,000 and we do not propose to change it at this stage. This fee assumes good quality accounts and working papers are provided in line with agreed timescales and that we can place reliance on Internal Audit work.

### The audit strategy

- 3 Specific risks are highlighted where we will focus our audit work. The risks highlighted are:
  - changes to accounting for Private Finance Initiatives and early adoption of IFRIC 12;
  - other accounting changes required by CIPFA's Statement of Recommended Practice, including changes to accounting for local taxation;
  - additional disclosures required for senior officers' remuneration;
  - changes in the valuation of fixed assets, and
  - poor quality assurance review of the financial statements prior to submission for audit.
- 4 We intend to adopt a mix of system control testing and substantive testing of year-end balances to gain assurance on the financial statements.

### Key milestones and deadlines

- 5 The deadline for receipt of the financial statements and working papers is 30 June. We will report the results of our audit to the Audit Committee in September to enable an audit opinion to be issued by 30 September.

**The audit team**

- 6 Sally-Anne Eldridge has taken over from Sharon Martin as the engagement manager. The rest of the team remains largely unchanged. We have outlined the Audit Commission's arrangements for ensuring the independence of the audit team, quality of services and further information on the respective roles of auditors and audited bodies in this plan.

# Fee for the audit of financial statements

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- 7 The total fee for the 2009/10 audit is £480,000 and, as indicative in my letter of 27 April 2009, the financial statements element is £310,000.
- 8 We are committed to targeting our 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.
- 9 The risk assessment process starts with the identification of the significant financial 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.
- 10 In setting the fee, we have assumed that:
  - the risk in relation to the audit of the financial statements is consistent with that for 2008/09;
  - you inform us of any significant development impacting on the audit;
  - good quality working papers are supplied at the start of the audit to support the entries in the financial statements;
  - audit queries are dealt with in a timely fashion; and
  - Internal Audit undertakes appropriate work on all material systems, work meets professional standards, we are able to rely on this work for gaining assurance on the accounts.
- 11 Where these assumptions are not met, we 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 Director of Finance.

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### Specific actions the Council could take to reduce its audit fees

- 12 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. The scale fee for the Council is £527,400. The agreed fee is 9 per cent below the scale fee and hence there are limited opportunities to reduce the fees further. We will, however, continue to work with officers to identify any specific actions that the Council could take and to provide ongoing audit support.

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# The audit strategy

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- 13 We 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).
- 14 We are required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 15 As part of our audit risk identification process, we need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying the business risks facing the Council, including assessing its 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.
- 16 Table 1 details the risks we have identified as relevant to the current opinion audit.

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**Table 1**      **Specific risks**

<b>Risk area</b>	<b>Audit response</b>
Although International Financial Reporting Standards do not take effect in Local Government until 2010/11, the CIPFA Statement of Recommended Practice (SoRP) does adopt one standard (IFRIC12) for 2009/10. The scope of this is wider than just Private Finance Initiative transactions. There is a risk that the Council does not consider all relevant contracts and that its accounts are materially misstated as a result.	We will review the Council's process for identifying and accounting for transactions that need to be considered under IFRIC 12. We will review the Council's assessment of whether the schemes should be on- or off-balance sheet under IFRIC12. Where the schemes are assessed as on-balance sheet, we will review the model developed to calculate the correct accounting treatment.

Risk area	Audit response
<p>The SoRP includes other changes to the format of the accounts:</p> <ul style="list-style-type: none"> <li>● Changes to accounting for local taxation; and</li> <li>● Deletion of some notes and other minor changes.</li> </ul>	<p>We will review the accounts for compliance with the SoRP paying particular attention to accounting for local taxation.</p>
<p>Amendments to the accounts and audit regulations require more disclosures about senior officers' pay.</p>	<p>We will review the disclosures to ensure they are consistent with the regulations.</p>
<p>The current economic climate suggests property values are still volatile and the valuer's advice will be critical to ensuring the balance sheet is materially accurate.</p>	<p>We will review the advice provided by the Council's valuers, and compare it to trends reported by the Audit Commission valuers.</p>
<p>Interim work completed prior to this plan indicates the need for substantive testing in areas where we would normally seek to place reliance on internal controls. At present this includes payroll and housing benefits.</p>	<p>We will substantively test payroll, housing benefits and other accounts balances in the accounts, as appropriate as determined by the findings from our interim work.</p>
<p>The 2008/09 financial statements contained significant errors which could have been identified by a robust quality assurance process.</p>	<p>We will undertake analytical review and substantive testing procedures to gain assurance over the entries in the accounts.</p>

17 The Council should provide working papers in respect of these risks.

### Testing strategy

- 18 For 2009/10 we plan to gain assurance over the financial statements through a mix of controls and substantive testing, with controls testing specifically targeted at the following areas:
- accounts receivable;
  - accounts payable;
  - council tax; and
  - national non-domestic rates.



## The audit strategy

- 19 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas for early work:
- review of implementation of IFRIC 12 and PFI accounting;
  - review of the accounting policies;
  - review of the valuer's advice where available;
  - confirmation of ownership and existence of fixed assets;
  - testing of fixed asset additions and disposals in-year; and,
  - payroll substantive testing.
- 20 Where other early testing is identified, this will be discussed with officers.

# Key milestones and deadlines

- 21 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. Table 2 details the key stages in producing and auditing the financial statements.
- 22 We will agree with officers a schedule of working papers required to support the entries in the financial statements.
- 23 Every week, the audit team will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

**Table 2**      **Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Controls and early substantive testing	January – June 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to us	30 June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
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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24 Table 3 details the key members of the audit team for the 2009/10 audit.

**Table 3**      **Audit team**

<b>Name</b>	<b>Contact details</b>	<b>Responsibilities</b>
Jon Hayes District Auditor	<a href="mailto:j-hayes@audit-commission.gov.uk">j-hayes@audit-commission.gov.uk</a> 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and value for money conclusion, and liaison with the Chief Executive and Director of Resources.
Sally-Anne Eldridge Senior Audit Manager	<a href="mailto:s-eldridge@audit-commission.gov.uk">s-eldridge@audit-commission.gov.uk</a> 0844 798 2287	Manages and coordinates the different elements of audit work. Key point of contact for the Director of Finance.
Shona Milton Audit Manager	<a href="mailto:s-milton@audit-commission.gov.uk">s-milton@audit-commission.gov.uk</a> 0207 364 4784	Manages day to day audit work. Key point of contact for corporate finance team.
Grant Slessor Team Leader	<a href="mailto:g-slessor@audit-commission.gov.uk">g-slessor@audit-commission.gov.uk</a> 0207 364 4784	Manages the detailed audit work. Key point of contact for the finance team.

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## Independence and objectivity

- 25 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 26 We 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 1.

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## Quality of service

- 27** We are 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 Jon Hayes in the first instance. Alternatively, you may wish to contact, Les Kidner, the Head of Operations for London Region.
- 28** 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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## Responsibilities

- 29** 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. Copies are available from the audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

- 30** 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.
- 31** 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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## Planned outputs

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

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**Table 4**      **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	November 2010

# Appendix 1 – 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.

- 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.

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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, covering the £180 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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## Copies of this report

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