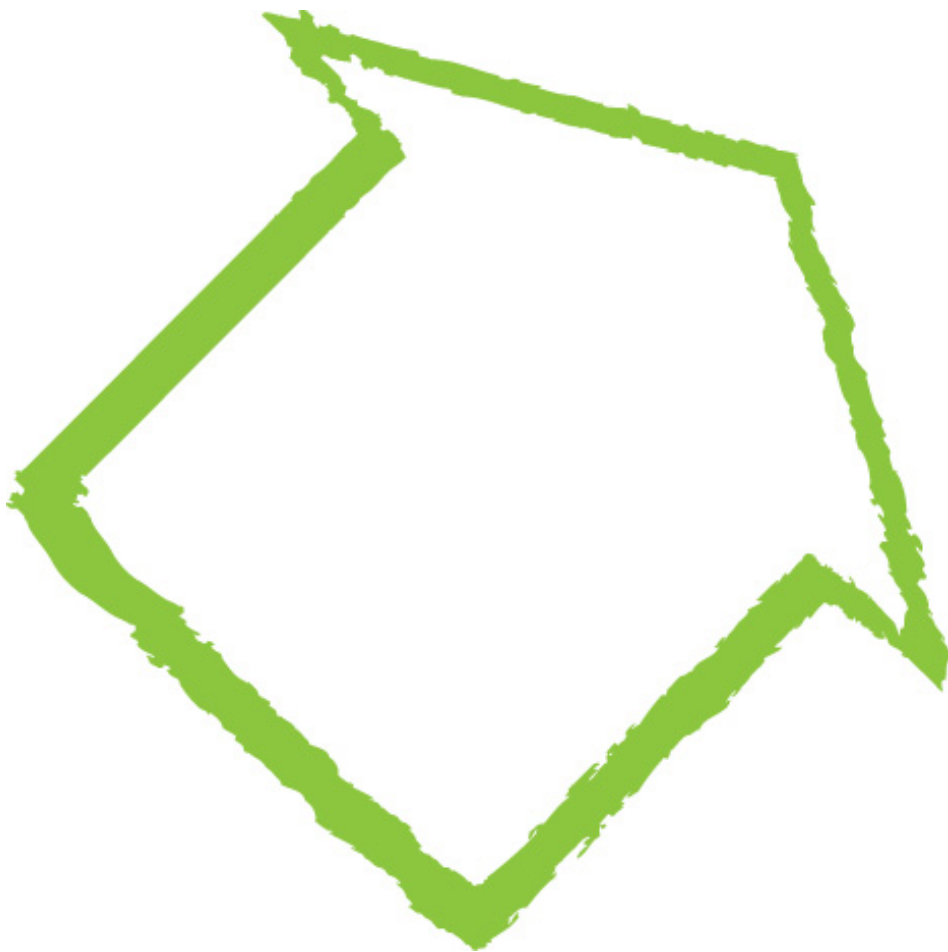


Audit Opinion Plan

Essex County Council

Audit 2009/10

March 2010



audit
commission

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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.
-

Introduction

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

Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Fee for the audit of financial statements

- 5 The fee for the audit is £404,380, excluding grant claims and VAT, as indicated in my letter of 16 June 2009.
- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is lower than the actual experience in 2008/09 when the draft accounts presented for audit were materially misstated;
 - good quality working papers will be supplied to support the 2009/10 accounts; and
 - Internal Audit undertakes appropriate work on all material systems and the final reports related to this work are available for our review by 30 April 2010.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Chief Financial Officer and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Essex County Council could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditor's report on the financial statements

- 10** 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 for the Council as at 31 March 2010.

Identifying opinion audit risks

- 12** As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- identifying 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.

Identification of specific risks

- 13 We 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
The Council is required to reflect the requirements of International Financial Reporting Interpretation Committee 12 (IFRIC 12) for 2009/10 as the first stage of the transition to International Financial Reporting Standards (IFRSs). This is likely to impact on the Council's accounting treatment for assets sourced via Private Finance Initiative (PFI) schemes. We understand the Council is engaging an external accountancy firm to provide support for this process.	We have requested the Council's proposed accounting treatment for all items where IFRIC 12 has an impact in April 2010 and the calculations to support the treatment and figures in the accounts by the beginning of June. This will enable an early review of this work to identify any differences of opinion as soon as possible. (Note the 2010/11 fee scales highlight that this work is outside the scope of the fee).
The Council has introduced a new fixed asset system during 2009/10. Internal Audit has reviewed the transfer of information from the previous fixed asset spreadsheet based system, the reconciliation of the two systems and reviewed 15 assets in detail to check that all details were transferred correctly.	We will be reviewing Internal Audit's work and follow up with further testing at year end.
Fixed asset impairments to reflect the fall in value of Council assets in the current economic climate were not reflected correctly in the accounts presented for audit in 2009/10 which caused a material error.	We have written to the Council's valuer asking for assurances on the processes in place for fixed asset revaluations, including impairments and we will be testing that the Council has accounted for the adjustments required correctly.

Risk area	Audit response
<p>In previous years the year end balances for schools have been significantly misstated, including cash.</p>	<p>We have met with the Council on a number of occasions to discuss the causes of the misstatements. Additional guidance has been issued by the Council to the internal Schools Service and individual schools in an attempt to mitigate the risk of these errors.</p> <p>However due to the number of schools in Essex and the wide variety of systems and controls in place, a residual risk of a material misstatement remains.</p> <p>We are reviewing internal audit's programme of work at schools during 2009/10 and will consider the volume, value and nature of the errors found to determine the impact on our opinion.</p>
<p>The Council has implemented procedures for journal controls from February 2010 but prior to that guidance was very limited. Internal Audit has issued a limited assurance opinion on journal controls.</p>	<p>We will increase our journal testing for 2009/10 to reflect the fact that expected controls were not in place.</p>
<p>Accounting treatment for wholly owned Council companies.</p>	<p>The Council is producing group accounts this year for the first time following the transfer of some services to Essex Cares. We will be reviewing the outcome of the audit of Essex Cares by its external auditors.</p> <p>We will consider the status and treatment of other Council owned companies, past and present.</p>
<p>There is intense public interest in member expenses nationally and for Essex County Council. The total member expenses paid is published in the accounts and many Councils include the details of amounts paid to individuals.</p>	<p>We will test the disclosure on member expenses to ensure the disclosure is accurate and that the expenses claimed are in line with the Council regulations.</p>

Identification of specific risks

Risk area	Audit response
<p>District Councils will now be accounting for council tax on an agency basis so money not collected at year end will be accounted in the County Council's accounts rather than the District Councils. There is a risk that the information provided by the District Councils is misstated.</p>	<p>We have asked the Council to let us know what controls are in place at the County Council to mitigate the risk that the information received from District Councils on Council Tax collected is incorrect.</p> <p>We will need to give specific consideration to any District Councils with qualified accounts in 2008/09.</p>

Testing strategy

- 14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.
- 15 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 16 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified a number of areas where early testing is possible and have agreed a timetable of working papers to be provided by the Council that facilitates this.
- 17 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of the following pieces of work.
 - Treasury Management.
 - Schools rolling testing programme.
 - Schools year end balances testing.
 - Review of transfer of fixed asset data to the new fixed asset system.
- 18 There may be further Internal Audit work we can place reliance on depending on the outcome of the final reports.

Key milestones and deadlines

- 19 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. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 20 We have agreed with you a schedule of working papers required to support the entries in the financial statements.
- 21 Every week, we 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. All queries will be logged and updated as the audit progresses.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	January to June 2010
Receipt of accounts	27 June 2010
Forwarding audit working papers to the auditor	Ongoing in accordance with agreed timetable
Start of detailed testing	Ongoing
Progress meetings	Monthly up to 30 June 2010 and then weekly until the opinion is issued.
Present report to those charged with governance at the Audit committee	27 September 2010
Issue opinion	By 30 September 2010

The audit team

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

Table 3 Audit team

Name	Contact details	Responsibilities
Rob Murray District Auditor	r-murray@audit-commission.gov.uk 0844 798 5777	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Louise Wishart Audit Manager	l-wishart@audit-commission.gov.uk 0844 798 3006	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Financial Officer.
Natalie Thoms Audit Manager	n-thoms@audit-commission.gov.uk 0844 798 2641	Support Audit Manager

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 we are required by auditing and ethical standards to communicate to you except that Louise Wishart's husband now works at a school in Essex. Given the nature of his responsibilities and the fact that Essex has so many schools this is not considered to be a risk to independence and objectivity for the audit team.
- 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 maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

- 26** 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 me in the first instance. Alternatively, you may wish to contact the Eastern Region Head of Operations, Andy Perrin.
- 27** 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.

Planned outputs

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

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Interim Audit Report- including Systems and Controls	June 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	October 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is lower than the actual experience in 2008/09 when an additional fee was charged;
 - accounts presented for audit will not be materially misstated;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by the agreed dates;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

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.
- 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.

Appendix 3 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Table 5 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Chief Financial Officer, Director of Finance/Deputy Chief Executive, Head of Internal Audit	DA and AM	Quarterly	General update plus: <ul style="list-style-type: none">• March/April - audit plan;• July - accounts progress; and• September - annual governance report.
Head of Internal Audit	DA and AM	Bi-monthly	General update plus progress on audit plans
Head of Corporate Finance	AMs	Monthly	Update on audit issues
Audit Committee	DA and AM	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">• Audit Plan;• Annual governance report; and• other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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