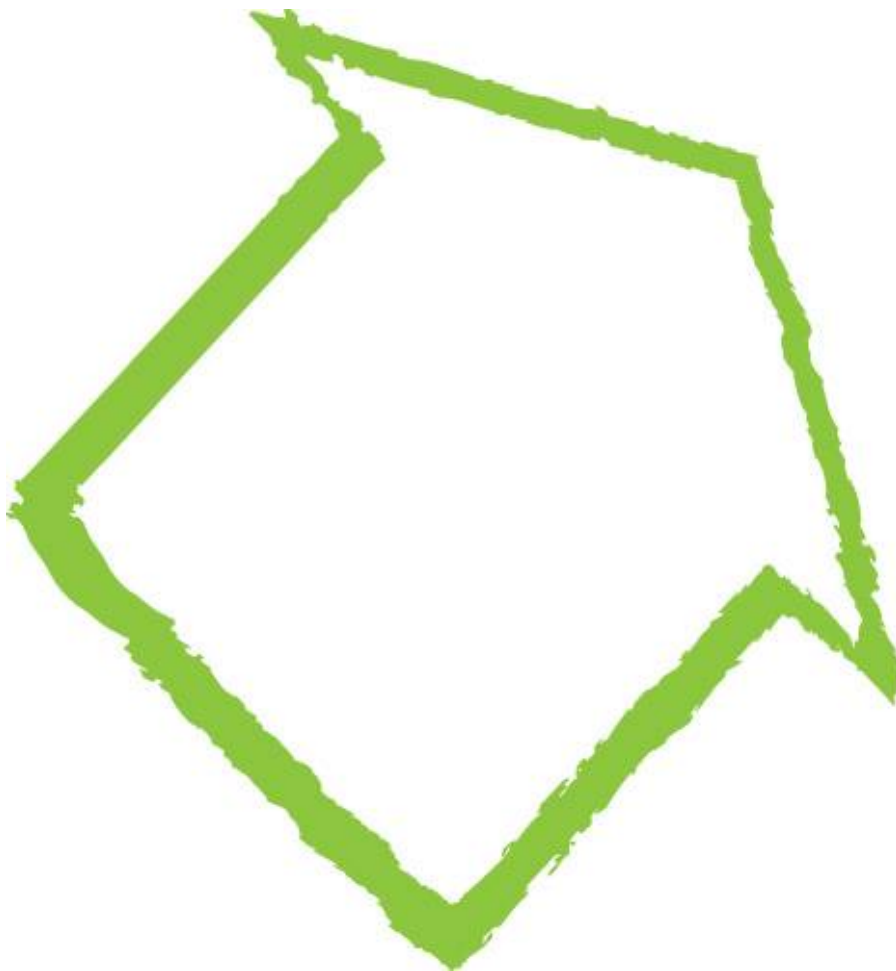


# Audit Opinion Plan

Dudley Metropolitan Borough Council

Audit 2009-2010

February 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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# Introduction

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- 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.

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# Responsibilities

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- 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

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- 5 The indicative fee for the audit is £204,057. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 6 The Audit Commission scale fee for this Council is £226,730. The fee proposed for 2009/10 is 10 per cent below the scale fee and is within the normal level of variation specified by the Commission.
- 7 In setting the fee, we have assumed that the level of risk in relation to the audit of accounts is consistent with that for 2008/09.
- 8 Where this assumption is 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 Director of Finance and we 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.
- 10 We have identified a specific risk for the 2009/10 financial statements in respect of PFI and similar contracts (see Table 1 on page 7). The accounting treatment of such contracts is complex and we will be using technical support from within the Audit Commission to review your approach to this issue. We will be charging an additional fee for this work.

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

- 11 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.

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# Auditors report on the financial statements

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- 12 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).
- 13 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 2010.

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## Identifying opinion audit risks

- 14 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

- 15 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 identification and accounting of PFI and similar contracts will need to be re-visited to comply with IFRS requirements introduced into the 2009 SORP.	We will review the Council's accounting treatment for PFI and similar contracts.
Accounting for equal pay settlements	We will test the accounting disclosures for the funding of the equal pay settlements to ensure compliance with the SORP, regulations and capitalisation direction.
Valuation of investment in Birmingham Airport.	We will review the Council's valuations.
Pooled budget and other partnership arrangements.	We will review the Council's processes for identifying and accounting for pooled budgets and other partnerships.
The accounting treatment of Council Tax & NNDR will need to be re-visited to comply with SORP 2009 requirements.	We will review the Council's accounting treatment for Council Tax and NNDR.
The recession has had a negative impact on asset values. There is a risk that the Council's assets may not have been appropriately impaired and are overvalued.	We will review the Council's impairment calculations for fixed and current assets.

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# Testing strategy

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- 16 On the basis of risks identified above we 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.
- 17 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 18 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 where substantive testing could be carried out early:
- review of accounting policies;
  - fixed assets - confirmation of ownership and existence, revaluation, additions and disposals; and
  - year-end feeder system reconciliations.
- Where other early testing is identified as being possible, this will be discussed with officers.
- 19 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 key controls testing.



# Working papers

- 20 A working paper checklist will be prepared by ourselves and provided to Corporate Finance. This checklist is a key document as it sets out clearly what evidence we need from the Council to support the accounts. It is essential that these working papers are available as soon as the accounts are provided for audit. Any delay in providing working papers will have a detrimental effect on how quickly the audit can be completed. The checklist lists all key working papers but is not intended to be a definitive list of all evidence that will be requested during the audit. This is because it is not possible to state in advance of the audit all the documents that will be needed and also because we do not wish to request evidence that we may not need.

# Approach to misstatements found during the audit

- 21** The audit is performed in accordance with professional auditing standards. These standards require us to assess whether any unadjusted misstatements in the financial statements are material, immaterial but more than trivial or trivial. The action that we take in respect of an adjusted misstatement is driven by this assessment. Table 2 below details what potential audit action could be taken in respect of the different types of unadjusted misstatements. The purpose of the table is only to give an indication of what audit action may be taken. It is not meant to be prescriptive and should not be interpreted as such.

**Table 2 Unadjusted misstatements**

Potential audit action in respect of unadjusted misstatements

Classification of unadjusted misstatements	How classification is determined	Consider impact on opinion ?	Required to report to Audit Committee ?	Report misstatement to officers ?
<b>Material</b>	>1% of gross expenditure	Yes	Yes	Yes
<b>Immaterial but not trivial</b>	Lower of >1% of materiality and £500k	Yes (but will depend on nature and value of misstatement)	Yes	Yes
<b>Trivial</b>	Lower of <1% of materiality and £500k	No	No	No

- 22** It should be noted that a separate materiality level will be applied for balance sheet items where both sides of the double entry appear on the balance sheet. This materiality level will be set at 1 per cent of the net assets figure. In addition, there will be some entries in the financial statements which we will consider to be material based on their political or numerical sensitivity even though they are below the calculated materiality levels. Such entries include related party transactions and payments to members and senior officers.
- 23** If a misstatement is corrected in the financial statements then the only audit action needed is to consider whether the adjustment to the statements should be reported to the Audit Committee at the conclusion of the audit. In deciding whether to report such an adjustment to the Audit Committee we will have regard to the value and nature of the adjustment and its impact on the statements.

## Approach to misstatements found during the audit

- 24 The approach to agreeing an adjustment to the financial statements will depend on the nature of the error found. For example, if the error relates to a debtor raised by a directorate then we would discuss that error with both the directorate and Corporate Finance.

# Key milestones and deadlines

- 25** 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.
- 26** We will agree with you a schedule of working papers required to support the entries in the financial statements.

**Table 3**      **Proposed timetable**

Task	Deadline
Control and early substantive testing	March to May 2010
Receipt of accounts	1 June 2010
Forwarding audit working papers to the auditor	1 June 2010
Start of detailed testing	Following receipt of accounts
Progress meetings	Weekly or Fortnightly
Present report to those charged with governance at the Audit committee	September 2010 (exact date to be confirmed)
Issue opinion	By 30 September 2010

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# The audit team

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

**Table 4      Audit team**

Name	Contact details	Responsibilities
Tony Corcoran District Auditor	t-corcoran@audit-commission.gov.uk 0844 798 4902	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Simon Turner Audit Manager	si-turner@audit-commission.gov.uk 01384 814049	Manages and coordinates the different elements of the audit work. Key point of contact for the Interim Director of Finance.
Stuart Parsons Team Leader	s-parsons@audit-commission.gov.uk 01384 814049	Coordinates the audit and undertakes specific pieces of audit work. Key point of contact for the Group & Financial Accountant.

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## Independence and objectivity

- 28** 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.
- 29** 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.

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## Meetings

- 30** 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.

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## Quality of service

- 31** 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 West Midlands Head of Operations.

- 32** 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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### Planned outputs

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

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**Table 5**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	February 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010

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# Appendix 1 – Basis for fee

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- 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.

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## Assumptions

- 3 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 2008/09;
  - you will inform us of significant developments impacting on the audit;
  - good quality working papers and records will be provided to support the financial statements;
  - 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.

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# Appendix 2 – 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.



## Appendix 2 – Independence and objectivity

- 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 6 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Group Accountant / Financial Accountant	AM and/or TL	December onwards - monthly	IFRS and audit planning
		June onwards - weekly or fortnightly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit opinion plan Annual governance report 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.

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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, 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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## Copies of this report

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