

# Audit Opinion Plan

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Nottinghamshire County Council

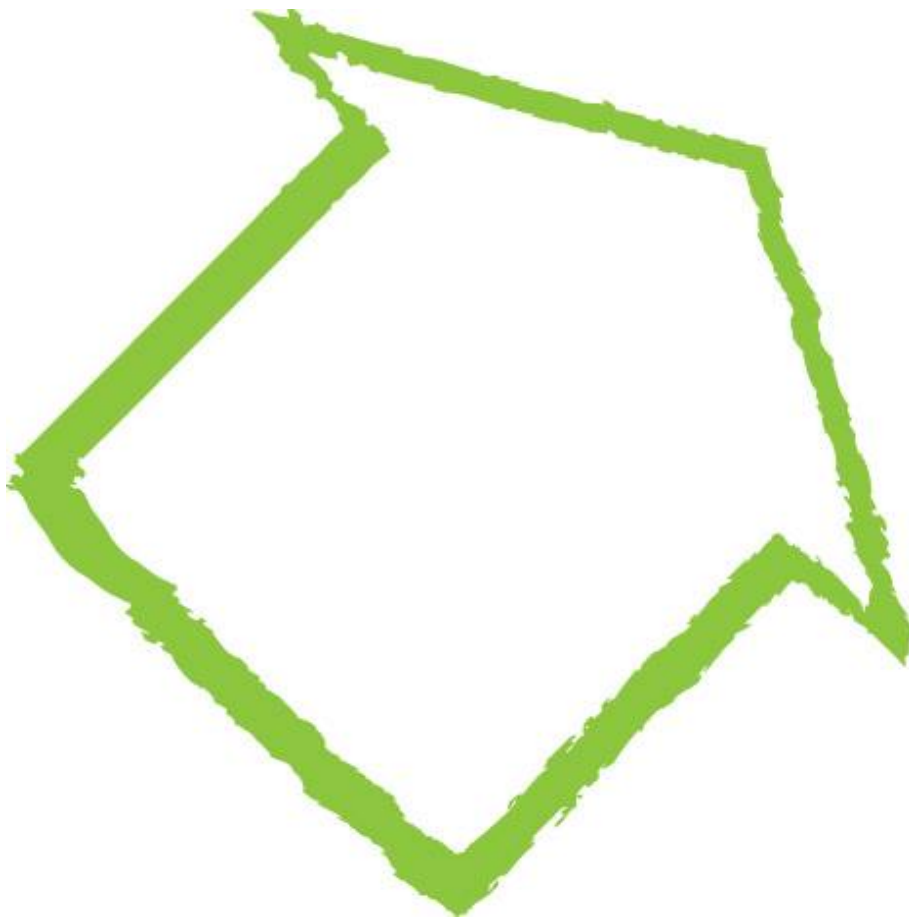
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Audit 2009/10

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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 at Nottinghamshire County Council. I have issued a separate plan for the audit of the two Pension Funds.
- 2 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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- 3 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.
- 4 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.
- 5 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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- 6 In my original audit fees letter of 27 April 2009, the indicative total fee for the audit (covering the audit opinion and Use of Resources assessment) was based on my best estimate at the time and agreed at £229,000. The Audit Commission scale fee for the Council is £262,180. The fee agreed for 2009/10 is 12.7 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:
  - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
  - the Council makes appropriate arrangements to respond to the changes to the Statement of Recommended Practice governing the production of the 2009/10 accounts; and
  - Internal Audit undertakes appropriate work on all material systems and their work on payroll and creditors is made available for our review by end February 2010.
- 8 Having considered the risks identified in this plan I remain satisfied that the original estimate was appropriate and no adjustment is therefore required to the fee. I will keep the fee under review as the audit progresses. If I need to make any significant amendments during the course of the audit I will discuss this with the Service Director (Finance) and outline the reasons for any increase to the Audit Committee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

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## Specific actions Nottinghamshire County 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, 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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- 11 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).
- 12 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

- 13 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

- 14 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	Assertions	Audit response
The valuation of land and buildings, particularly in light of the continuing recession and the late timing and initial lack of supporting documentation for the 2008/09 impairment review (reduction in value of £105 million).	Valuation and allocation.	We will liaise with officers regarding the proposals to ensure there are effective arrangements in place for obtaining timely and relevant valuations of land and buildings. We will discuss proposals for completing an impairment review in good time for any issues to be taken into account prior to the deadline for the production of the accounts. Substantive testing will also be carried out.
Further improvements are needed in SORP compliance and presentation in relation to fixed assets, in particular impairments, revaluations, leases and disposals. The SORP 2009 includes further changes to the disclosures in many areas of the statements.	Valuation and allocation, accuracy and classification.	Progress against the action plan agreed following the 2008/09 audit will be discussed with officers during the closedown process. The draft accounts will be reviewed against the SORP 2009 guidance notes.
A relatively high number of errors in individual debtor and creditor balances at 31 March 2009 led to significant errors, by value, in the accounts.	Cut off, classification, valuation and allocation, completeness and accuracy.	Progress against the action plan agreed following the 2008/09 audit will be discussed with officers. Year end substantive testing will again be carried out.

Risk area	Assertions	Audit response
<p>Asset lives used to write down the value of government grants deferred (GGD) are not updated to reflect the asset lives stated by the valuer. We estimate the GGD balance was overstated in the year by around £6 million.</p>	<p>Valuation and allocation.</p>	<p>Progress against the action plan agreed following the 2008/09 audit will be discussed with officers during the closedown process. Further substantive testing will be carried out in this area.</p>
<p>The impact of single status and value of payments made and likely to be made over time are still material. Additional disclosure was required in 2008/09 in order to provide a more comprehensive summary of payments and liabilities.</p>	<p>Accuracy and completeness.</p>	<p>This was resolved during the 2008/09 audit but officers will need to ensure that the disclosure in 2009/10 is adequate. Year end substantive testing will be carried out.</p>
<p>Capital Commitments have been overstated in the draft accounts in each of the last two years although in 2008/09 the error was not material (£0.96 million).</p>	<p>Accuracy.</p>	<p>Year end substantive testing.</p>
<p>The early implementation of IFRIC12 via SORP 2009 means that existing PFI contracts are likely to be brought onto the balance sheet in 2009/10. The value of most schemes is likely to be material and there is a risk of significant or material errors. The Council is a partner with Nottingham City Council.</p>	<p>Rights and obligations, valuation and allocation, existence and completeness.</p>	<p>We will continue to monitor developments and discuss accounting proposals with officers. We will liaise with audit colleagues at Nottingham City Council. Additional substantive testing will be needed at the year end.</p>



## Identification of specific risks

Risk area	Assertions	Audit response
SORP 2009 introduces a change to the Council Tax accounting arrangements. Precepting authorities need to obtain Council Tax collection information for the first time from the billing councils. These values are likely to be material and, as this is a change in accounting policy, a Prior Period Adjustment is required.	Cut off, classification, valuation and allocation, completeness and accuracy.	We will discuss with officers the proposals for obtaining the information required and the expected accounting adjustments. We will liaise with the billing authorities' auditors to identify any opportunities for obtaining assurance on the values recorded in the Council's accounts.

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# Testing strategy

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- 15 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.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 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 may be carried out early:
  - review of accounting policies;
  - bank reconciliation;
  - year end feeder system reconciliations;
  - contingent liabilities;
  - Annual Governance Statement; and
  - review of impairment.
- 18 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 Internal Audit's work on the payroll and creditors systems.

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# Key milestones and deadlines

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- 20 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.
- 21 We will agree with you a schedule of working papers required to support the entries in the financial statements. We will attend the finance team's Closedown Workshop in February 2010 and provide feedback on the 2008/09 audit and specific areas of focus for 2009/10.
- 22 We will meet with the key contacts regularly (normally weekly) during the post statements testing, and review the status of all queries as the audit progresses.

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

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	by May 2010
Receipt of accounts	June 2010
Forwarding of audit working papers to the auditor	June 2010
Start of detailed testing	June 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	September 2010
Issue of opinion	By 30 September 2010

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# The audit team

23 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
Andrew Blackburn District Auditor	<a href="mailto:a-blackburn@audit-commission.gov.uk">a-blackburn@audit-commission.gov.uk</a> 0844 798 4361	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Mike Norman Audit Manager	<a href="mailto:ma-norman@audit-commission.gov.uk">ma-norman@audit-commission.gov.uk</a> 0844 798 4403	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Service (Finance).

## Independence and objectivity

- 24 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.
- 25 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

- 26 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.

## The audit team

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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 me in the first instance. Alternatively, you may wish to contact the East Midlands Sub-regional Head of Operations.
- 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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### Planned outputs

- 29 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**

<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
Final accounts memorandum	November 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;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on the creditors and payroll systems 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 start of the post-statements audit in June 2010;
  - 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

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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.



# 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
Service Director (Finance)	AM and TL	Quarterly	General update plus: <ul style="list-style-type: none"> <li>• March/April - audit plan;</li> <li>• July - accounts progress; and</li> <li>• September - annual governance report.</li> </ul>
Chief Accountant	AM and Team Leader (TL)	Quarterly	Update on audit issues
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan;</li> <li>• Annual governance report; and</li> <li>• other issues as appropriate.</li> </ul>

## 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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