

Audit Opinion Plan

Sunderland City Council
Audit 2009/10

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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

- 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

- 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.

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Fee for the audit of financial statements

- 5 The indicative fee for the audit is £313,700. Of this, £209,506 relates to the audit of the financial statements.
- 6 The Audit Commission scale fee for the Council is £330,240. The fee proposed for 2009/10 is 5 per cent below the scale fee. 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.
- 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;
 - good quality working papers will be supplied to support the accounts;
 - Internal Audit undertakes appropriate work on all material systems and this is available for our review on a timely basis.
- 8 Where these conditions 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 Director of Financial Resources 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.

Specific actions Sunderland City 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.

Auditors report on the financial statements

- 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.

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	Audit response
<p>Equal pay</p> <p>Equal pay cases pose a significant financial risk to the Council and represent a large potential financial liability. The liabilities are still not clear, due to legal cases and national issues that need to be resolved.</p>	<p>We have maintained a dialogue with officers in relation to this issue, to ensure that the disclosure made in the financial statements is up-to-date and accurate.</p>
<p>Changes in the SORP, including IFRS issues</p> <p>There are changes in the SORP, most notably the implementation of IFRS requirements in relation to IFRIC 12. There are also changes in accounting for elements of council tax and NNDR, and other issues.</p>	<p>Officers have kept us up-to-date with their plans and proposals. Consultants are assisting in relation to IFRIC 12, in respect of bringing PFI assets on to the balance sheet.</p> <p>We will substantively test the accounting entries in relation to PFI.</p> <p>We will also test the other areas of change in this year's accounts, and continue our dialogue with officers in relation to full IFRS implementation in the 2010/11 accounts.</p>
<p>Accounting for Newcastle International Airport</p> <p>The Council's share of Newcastle International Airport should be included in the balance sheet at fair value. There is a need for a full valuation to be carried out at 31 March 2010.</p>	<p>Officers have confirmed that a valuation is being undertaken.</p> <p>We will review the valuation as part of our post statements work.</p>
<p>Other issues including previous findings and issues arising from interim work</p>	<p>We have discussed progress on issues raised in previous audits and matters arising from our interim work with officers and we will follow up improvements made during the post statements audit.</p>

Testing strategy

- 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. Where other early testing is identified as being possible, this will be discussed with officers.
- 18 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.
- 19 We have agreed an Opinion Audit Protocol, which sets out the detailed arrangements we have agreed with officers for the conduct of the audit.

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Key milestones and deadlines

- 20 The Council is required to prepare its 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 have agreed an Opinion Audit Protocol, which sets out the detailed arrangements we have agreed with officers for the conduct of the audit. This includes an agreed schedule of working papers required to support the entries in the financial statements.
- 22 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.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	April to June 2010
Receipt of accounts	29 June 2010
Forwarding audit working papers to the auditor	7 July 2010
Start of detailed testing	7 July 2010
Progress meetings	As appropriate
Present report to those charged with governance at the Audit and Governance Committee	By 30 September 2010
Issue opinion	30 September 2010

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
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0844 798 1621	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Gavin Barker Senior Audit Manager	g-barker@audit-commission.gov.uk 0844 798 1654	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of 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 agreed arrangements are set out in Appendix 3.

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 North East, Yorkshire and the Humber 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.

Planned outputs

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

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	May 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	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 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 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 7 July 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

- 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 and Governance 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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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 Executive	District Auditor	Regular meetings	General update and discuss any significant issues arising
Director of Financial Resources	SAM and Team Leader (TL)	Regular meetings, including meetings with other key finance officers and Internal Audit	General update plus discussions of audit plans, the production and audit of the accounts, any issues arising and agreement of the annual governance report
Audit and Governance Committee	DA and AM, with TL as appropriate	Quarterly	Formal reporting of: Audit 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.