

Audit opinion plan

Tyne and Wear Fire and Rescue Authority

Audit 2010/11

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.

Contents

Introduction	2
Responsibilities	2
Fee for the audit of financial statements	2
Specific actions the Authority could take to reduce its audit fees	3
Auditors report on the financial statements.....	4
Identifying opinion audit risks.....	4
Identification of specific risks	4
Testing strategy	5
The Clarity Project	6
The Value for Money Conclusion	7
The audit team.....	9
Independence and objectivity	9
Meetings	9
Quality of service	10
Planned outputs	10
Appendix 1 Basis for fee	11
Assumptions	11
Appendix 2 Independence and objectivity	12
Appendix 3 The Clarity project	14
Introduction	14
Testing strategies	14
Related Party Transactions	14
Accounting Estimates	14
Deficiencies in internal control	15
Appendix 4 Working together	16
Meetings	16
Sustainability.....	16

Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2010/11. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission – in 2010/11 this includes mandated work on the National Fraud Initiative; and
- current national risks relevant to your local circumstances; and specific 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. A working arrangements protocol has been agreed with you and is in place which sets out in detail how we discharge our relative responsibilities at a local level.

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 £75,000 as indicated in my letter of 26 April 2010. At this stage I am satisfied that fee remains appropriate. Further information on the basis for the fee is set out in appendix 1.

6 In setting the fee, I have assumed that:

- the Authority will prepare financial statements which comply with relevant requirements of International Financial Reporting Standards (IFRS), and CIPFA's 'Statement of Recommended Practice' (SORP) and
- good quality working papers will be supplied to support the financial statements.

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. We will discuss this in the first instance with the Chief Finance Officer, and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 The Audit Commission have recently announced rebates to all audited bodies as part of a three-year programme to deliver cost reductions of about £70 million nationally. Rebates are from the Audit Commission centrally and not a reduction to the audit fee, although the amount of the rebate is based on audit scale fees. For Tyne and Wear Fire and Rescue Authority the rebate will be in the region of £1,100.

Specific actions the Authority 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 Authority could take and to provide ongoing audit support.

10 We will provide officers with a schedule of our detailed working paper requirements in advance of the post-statements audit.

Auditors report on the financial statements

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 of the Authority as at 31 March 2011. As part of this opinion I am also required to consider:

- whether financial disclosures included in the Authority's annual report are consistent with the audited financial statements;
- whether disclosures made in the Annual Governance Statement (which forms part of the accounts) meet SORP requirements and are consistent with my knowledge of the Authority; and
- whether proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources ('the value for money conclusion').

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 Authority, this includes an assessment of your own risk management arrangements;
- considering recent financial performance, and future prospects;
- assessing internal control – this includes 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 key information systems.

Identification of specific risks

13 We have considered the key risks relevant to the 2010/11 opinion audit and these are set out below.

Table 1: **Specific opinion risks identified**

Risk area	Audit response
<p>The Authority is required to implement IFRS requirements in full for the first time in 2010/11. Key changes relate to:</p> <ul style="list-style-type: none">■ presentation and disclosure;■ PPE (fixed asset) valuation and accounting;■ lease arrangements; and■ leave and holiday pay accruals.	<p>We have already had early discussions with Finance staff regarding PPE valuations and component accounting. We will review the Authority's template for its 2010/11 accounts and opening balance restatement early in 2011 and we will undertake sample testing on material assertions in the accounts.</p>

Risk area	Audit response
<p>The Authority is required to comply with IFRIC12 requirements, and include the assets and associated liabilities of PFI schemes in its financial statements. Phase 1 PFI was brought on balance sheet last year and Phase 2 (Tynemouth Fire Station) a joint PFI scheme, will be included in the accounts for the first time in 2010/11.</p>	<p>We will review the accounting treatment of PFI schemes in the light of IFRIC12 and other guidance, seeking support from AC technical staff if necessary. We will compare assertions in the accounts to operators' financial models and review the allocation of costs and grant income on joint PFI schemes.</p>
<p>The Authority has interests in a limited company (NEFCCL). This needs to be accounted for in accordance with IFRS and SORP requirements.</p>	<p>We will ensure that the Authority's interest in NEFCCL is fully disclosed and properly accounted for, and consider the application of ISA (UK&I) 600 (group accounting). We will seek support from AC technical staff if necessary</p>
<p>The most significant and complex assertions in the accounts relate to PPE (fixed assets) and pensions obligations.</p>	<p>We will undertake appropriate testing to confirm these assets have been correctly valued and accounted for.</p>
<p>Sunderland City Council (SCC) provides support services, and treasury management, to the Authority.</p>	<p>We will plan and carry out our audit work in order to meet ISA (UK&I) 402 requirements. As part of this work we will:</p> <ul style="list-style-type: none"> ■ liaise with the SCC external audit team; ■ undertake appropriate testing on material balances and transactions in the accounts; and ■ seek representations from management if necessary to confirm that shared costs and balances have been correctly allocated.

Testing strategy

14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls together with substantive tests of transaction streams and material account balances at year-end. This testing will be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). The timing of our work and proposed site visits will be discussed in advance with officers.

15 Wherever possible, we will seek to rely on the work of Internal Audit to help meet our responsibilities, and to avoid the risk of duplicating audit effort.

The Clarity Project

16 My audit of the financial statements is governed by International Standards on Auditing (ISAs). As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

17 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

18 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you may see some changes in the way my audit team delivers your audit and the information they seek from you. In appendix 3 I have set out the main changes and how they may impact on you.

The Value for Money Conclusion

19 . From 2010/11 auditors will not be required to provide annual scored judgements relating to their local VFM audit work. We will give our statutory value for money conclusion based on only two reporting criteria specified by the Commission and set out below:

Table 2: **Value for Money reporting criteria**

Specified reporting criteria	What the auditor will consider
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust financial systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The auditor will focus on the organisation's arrangements relating to financial governance, strategic financial planning and financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and improving efficiency and productivity.

20 These criteria are in line with the expectations of the recent comprehensive spending review and proposed funding reductions for fire and rescue services.

21 There will be no key lines of enquiry for the specified criteria, and auditors are expected to determine the scope of their local programme of VFM audit work on the basis of their assessment of risk. The key risks that we have identified at this stage, and our proposed audit work, are set out below.

Table 3: VFMC risk areas

Risk area	Audit response
A focus on short term management at the expense of longer term financial planning	We will review up to date strategic and medium term financial plans, and the quality of data underpinning these.
The Authority may not maintain adequate arrangements to monitor achievement of key outcome targets and the impact of efficiencies on service quality and provision.	We will review 2010/11 value for money profiles and year-end performance reports.
Inadequate action to identify and deliver the required level of financial savings	We will review the corporate strategies for identifying and delivering financial savings, and the success of these arrangements to date.
Reluctance to challenge established processes or to explore innovative and new ways of delivering activities.	We will review outcomes delivered through service reviews and other management processes to date.
Lack of leadership on prioritising resources, and lack of consultation with staff, stakeholders and the public.	Minute reviews and discussions with key staff and elected members.

The audit team

22 The key members of the 2010/11 audit team are shown in the table below.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Steve Nicklin District Auditor/ Engagement Lead	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 Fire Officer.
Lynn Hunt Audit Manager	l-hunt@audit-commission.gov.uk 0844 798 1675	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer.
Chris Clancy Team Leader	c-clancy@audit-commission.gov.uk 0844 798 1647	On-site supervision of audit fieldwork and key point of contact for the Chief Accountant.

Independence and objectivity

23 I am not aware of any relationships that may affect the independence and objectivity of audit staff, which we are required by auditing and ethical standards to communicate to you.

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 4.

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 Mike Haworth Maiden, Lead Director for Local Government, on 0844 798 2305.

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 Governance Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Opinion audit plan	February 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (If required)	October 2011

Appendix 1 Basis for fee

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.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Authority with reference to:

- our cumulative knowledge of the organisation;
- planning guidance issued by the Audit Commission;
- the specific results of previous and ongoing audit work;
- interviews with officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- you will inform us of significant developments impacting on the audit;
- Internal Audit meets appropriate professional standards and completes their planned work in sufficient time for us to place reliance on it for the purposes of our opinion audit;
- good quality working papers and records will be provided to support the financial statements by the agreed date;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports; and

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

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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

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.

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 Governance Committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.

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.

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.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 The Clarity project

Introduction

The main changes you will notice in our 2010/11 audit approach cover:

- Testing strategies;
- Related Party Transactions;
- Accounting Estimates; and
- Reporting deficiencies in internal control.

Testing strategies

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDEA software or excel, depending on the compatibility of your general ledger software.

ISA (UK&I) 330 also requires me to undertake substantive testing on all material classes of transactions. This means that I will need to sample test income and expenditure assertions in the 2010/11 financial statements. To enable me to do this you will need to provide a full audit trail between the BVACOP service analysis and the source documentation via project codes, journal postings and feeder systems.

My audit team will discuss a suitable approach to this work with you.

Related Party Transactions

ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting Estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;

- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant.

If I decide the deficiency is significant, I will report it in writing to those charged with governance.

Appendix 4 Working together

Meetings

The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Our proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Key officers	Audit Commission staff	Timing	Purpose
Chief Fire Officer and Chief Financial Officer	District Auditor and Audit Manager (AM)	January, September and November	General update plus: <ul style="list-style-type: none">■ January – audit plan;■ September – annual governance report; and■ October – annual audit letter.
Chief Accountant	AM and Team Leader (TL)	Weekly during post-statement site visit Quarterly the rest of the year	Update on audit issues
Governance Committee	District Auditor and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report;■ Annual Audit Letter; and■ Other issues as appropriate.

Sustainability

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.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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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