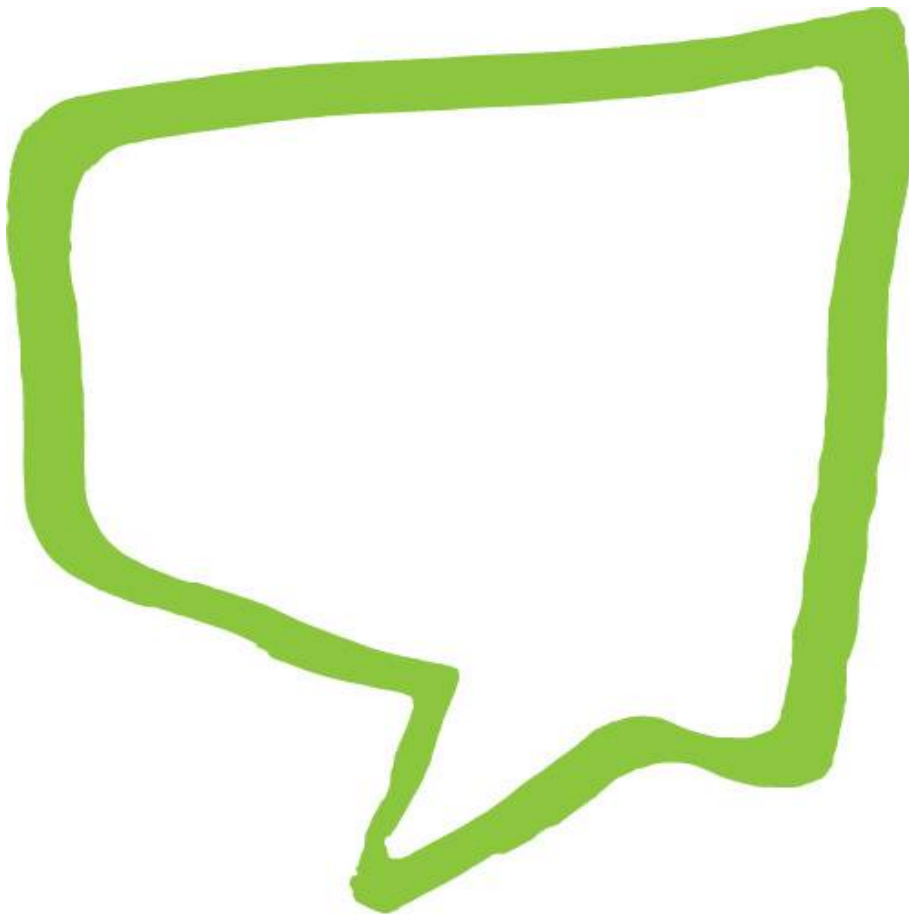


Audit Plan

Cheshire East Council

Audit 2009/10

January 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.
-

Introduction

- 1 This plan sets out the audit work that we propose to undertake at the 2009/10 audit. The main focus of the plan is on the financial statements audit. 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; and
 - current national risks relevant to your local circumstances and local risks.
- 2 Planning for 2009/10 audit will continue as the audit progresses. We will update the information and fees contained in this plan as necessary.

Responsibilities

- 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 to meet these responsibilities.
- 5 We comply with the statutory needs governing our audit work, in particular the Audit Commission Act 1998 and the Code of Audit Practice.

The audit fee

- 6 We issued our audit fee letter for the 2009/10 audit in April 2009. The fee included in the letter was £401,925 (excluding VAT). Based on our current assessment of risk, we remain satisfied the fee has been set at a suitable level. Therefore, we do not propose any adjustment to the fee at this stage of the audit. If there are any changes to our risk assessment or to our planning assumptions we will discuss these firstly with the Borough Treasurer & Head of Assets. Any changes and their impact on the audit fee, will be recorded in an updated version of the audit plan, which will be presented to the Audit and Governance Committee. The fee of £131,544 for the audit of grant claims is still indicative at this stage.

Specific actions the Council could take to reduce its audit fees

- 7 The Audit Commission needs its auditors to tell audited bodies of specific actions it could take to reduce its audit fees. We will work with staff to identify any specific actions the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

- 8 We will carry out the audit of the financial statements under the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 9 We need to issue an audit report which will give an 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

- 10 We need to 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's information systems.

Assertions

- 11 The Council's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Council. Management are therefore required to make statements regarding the recognition, measurement, presentation and disclosures of entries in the financial statements and related disclosures.
- 12 Management representations are referred to as assertions about financial statements. We are required by international accounting standards to check that the financial statements are free from material misstatement at the assertion level. Assertions are made for:
 - Income and Expenditure Account items;
 - Net Assets Statement items; and
 - Disclosures and presentational elements of the financial statements.
- 13 The way in which the assertions link with the three main parts of the financial statements listed above is shown in Appendix 2.

Identification of specific risks

- 14 We have considered the risks for the current opinion audit and have set these out below.

Table 1 **Specific risks**
Specific opinion risks identified

Risk area	Audit response
Balances brought forward from the former councils and restatement to comply with International financial reporting standards (IFRS)	Review of processes with senior officers to ensure that balances are brought forward correctly and restated in line with IFRS needs. Testing to ensure that closing balances of the former councils have been brought forward accurately and completely and restated for IFRS purposes.
Loss of continuity in the accountancy team	Regular meetings with the Head of Finance and finance managers to identify any specific risks that might result in large errors in the Council's accounts.
Financial misreporting because of <ul style="list-style-type: none">the current economic climate;increased financial pressures and to bridge £15.3m funding gap; andthe need to achieve significant efficiency savings	Completion of fraud risk assessments. Continuing discussion with senior officers regarding controls that mitigate the risk of misreporting. Obtain letter of assurance from those charged with governance. Review letter of management representation. Substantively test expenditure and year end cut off arrangements to ensure that expenditure is properly accounted for in the year in which it is incurred.
New financial systems, data migration and developing Internal control arrangements. The Council had adopted the Oracle general ledger from the demised County Council	Monitor the sources of management assurance for data migration and the effectiveness of internal controls, including reliance on Internal Audit. Testing strategy will reflect conclusions drawn from review of internal control arrangements.
Housing benefits	Review and testing of the new integrated system for the purposes of detecting material misstatement or error.

Risk area	Audit response
Valuation of fixed assets	Substantive testing to ensure that asset impairment reviews have been conducted correctly and that assets are correctly valued in the balance sheet.
Shared services	Review and substantive testing of accounting and disclosure arrangements for shared services.

Testing strategy

- 15 Based on the 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 We will perform testing both before and after we receive the draft financial statements in June 2010.
- 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 for performing early substantive testing.
 - Review of accounting policies.
 - Bank reconciliation.
 - Investments – ownership.
 - Year-end feeder system reconciliations.

Any other potential early testing will be discussed with officers.
- 18 Wherever possible we seek to rely on the work of Internal Audit to help meet our responsibilities. Internal Audit is planning to perform work on some of the main financial systems in 2009/10 and we will review this in the following areas to see if we can gain any assurances from it:
 - housing benefits system;
 - council tax and business rates systems;
 - disaggregation of fixed assets and corresponding opening values;
 - debt management, loans and investments systems;
 - review and testing of shared ICT service; and
 - payroll.

Auditors report on the financial statements

- 19 We have developed a joint working protocol with internal audit to enable efficient joint working wherever possible and we will revisit Internal Audit's plan as the year progresses. Internal Audit's focus in 2009/10 is on understanding and documenting the core financial and fundamental systems which will assist our understanding of key systems which feed the financial statements.

Use of resources

- 20** We will consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. This is known as the use of resource assessment. We are also required to assess whether the Council has put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources assessment

- 21** Following local government reorganisation, this is the first use of resources (UoR) assessment to be undertaken at the Council. It is a significantly different assessment compared with previous UoR assessments performed at the former councils. The main difference is the strong focus on outcomes achieved. The UoR assessment forms part of the Comprehensive Area Assessment (CAA) and will feed into the Council's annual organisational assessment.
- 22** The UoR assessment will consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. The three themes of the assessment are, managing finances, governing the business and managing resources.
- 23** The key lines of enquiry (KLOE) under the three themes listed above are shown in the table below. The KLOE about natural resources and shown in bold in the table, will not form part of the 2009/10 assessment.

Table 2 Use of resources KLOE 2009/10

Managing finances	Governing the business	Managing resources
Financial planning and financial health	Commissioning and procurement	Natural resources
Understanding costs and performance	Data Quality and use of information	Asset management
Financial monitoring and reporting	Good governance and ethical behaviour	Workforce planning
	Risk management and internal control	

Use of resources

- 24 We have discussed and agreed a project specification for this assessment with officers. The main assessment work will be performed in the period January to March 2010. We plan to issue a draft report in July 2010 and the final report in September 2010.

VFM conclusion

- 25 We need to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission specifies each year, which of the UoR key lines of enquiry are the relevant criteria for the VFM conclusion. As part of the assessment, we will review the Council's response to the relevant VFM conclusion issues which were reported to the demised councils in March 2009. The VFM conclusion will be reported to the Governance and Constitution Committee in September 2010.
-

Audit delivery arrangements

Key milestones and deadlines

26 The key milestones and deadlines for the audit are shown in Table 3.

Table 3 **Key deadlines**

Task	Deadline
Financial statements	
Presentation of audit plan to members	January 2010
Understanding the entity, control and early substantive testing	End March 2010
Receipt of accounts	Late June 2010
Working papers given to the auditor	Early July 2010
Start of detailed testing	Early July 2010
Completion of detailed testing	Early September 2010
Issue of draft annual governance report	Early September 2010
Present annual governance report to the Governance and Constitution Committee.	By 30 September 2010
Issue opinion	By 30 September 2010
Issue Annual audit letter	Early November 2010
Use of resources	
Issue project specification	Early December 2009
Complete assessment	End April 2010
Feedback to Council	Continuous
Draft report to Council	Late July 2010
Final report and scores (part of Annual Governance Report)	Early September 2010

27 We will agree with officers, the working papers required to support the entries in the financial statements.

Audit delivery arrangements

The Audit team

28 We show in Table 4 the key members of the audit team for the 2009/10 audit.

Table 4 **Audit team**

Name	Contact details	Responsibilities
Judith Tench District Auditor	J-tench@audit-commission.gov.uk 0844 798 3556	Responsible for the overall delivery of the audit including the quality of outputs, signing the financial statements opinion and VFM conclusion, and liaison with members, the Chief Executive and Treasurer.
Andrea Castling Audit Manager	a-castling@audit-commission.gov.uk 0844 798 3557	Manages, quality assures and coordinates the different parts of the audit work. Key point of contact for the Head of Policy & Performance and Head of Finance. Responsible for preparation of the annual governance report for the Council.
Stephen Nixon Audit Manager	s-nixon@audit-commission.gov.uk 0844 798 7313	
Caroline Devine Performance lead	c-devine@audit-commission.gov.uk 0844 798 3562	Responsible for the delivery of parts of the use of resources work including the value for money conclusion.
Ivan Parkhill Team Leader	I-parkhill@audit-commission.gov.uk 0844 798 3552	Leads the audit team in delivering the audit work programmes. Key point of contact for the Audit and Risk Manager and other finance managers.

Independence and objectivity

- 29 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff. There are no matters to bring to members attention.
- 30 We comply with the ethical standards issued by the APB and with the Commission's requirements for independence and objectivity as summarised in Appendix 3.

Meetings

- 31 The audit team will develop 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

- 32 We are committed to providing you with a high quality service. The Audit Commission monitors the quality of our service and the most recent report can be viewed by following the attached link [Audit Practice annual quality report \(November 2009\)](#) . This report summarises the results of the quality review of the work of the Commission's own staff as auditors to local government and NHS bodies. The report also includes the views of the Audit Inspection Unit that carried out an independent review of our work.
- 33 The Audit Commission's annual quality report is one of a range of measures aimed at showing our commitment to delivering audit quality. It assures audited bodies and stakeholders about the underlying strength of the Commission's audit practice and compares our audit practice with the firms and the other audit agencies.
- 34 If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor, Judith Tench, in the first instance. Alternatively you may wish to contact the Head of Operations, Terry Carter.
- 35 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

- 36 We will discuss and agree reports with officers before they are presented to the Governance and Constitution Committee. The planned outputs from the audit are listed in Table 5.

Table 5 **Planned outputs**

Planned output	Indicative date
Audit plan	7 January 2010
Opinion audit plan (updates if required)	To coincide with Governance and Constitution Committee meetings
Use of Resources report	1 September 2010
Annual Governance Report	15 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010

Audit delivery arrangements

Planned output	Indicative date
Annual Audit Letter	30 October 2010
Final accounts memorandum (if required)	30 November 2010

Sustainability

37 The Audit Commission promotes sustainability in its 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 if possible; and
- minimising travel.

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 We identify risks after taking account of:
 - the significant financial and operational risks applying to the Council;
 - knowledge of the Council and cumulative knowledge of the former councils;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous work performed at legacy councils;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of inherent risk, as a result of local government reorganisation, is high;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - We can place reliance on some Internal Audit work for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 30 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 We will be required to undertake additional work which is likely to result in an increased audit fee, if these assumptions are not met.

Fee summary

- 5 A summary of the audit fee for 2009/10 is provided in the table below.

Appendix 1 – Basis for fee

Table 6 Audit fee

Audit area	Planned fee 2009/10 £'000
Planning, controlling and reporting	£70
Financial statements	£170
Use of resources	£160
Total audit fee	£402
Grant claims (estimate)	£132
National fraud initiative	To be advised

Appendix 2 – Assertions

We are required to test whether the financial statements are free from material misstatement at the assertion level

Assertion	What does it mean	Income and expenditure Account	Net Assets Statement	Disclosure
Accuracy	Is it recorded at the right amount and are the details right? Has it been coded correctly?	✓		✓
Classification	Is it in the right place, under the right headings in the accounts?	✓		✓
Completeness	Is everything that should be in the statements all there?	✓	✓	✓
Cut-off	Is it in the right year?	✓		
Existence	Does the asset or liability exist and is it still owed or owing at the end of the year?		✓	
Occurrence	Has it happened and does it relate to the Council?	✓		✓
Rights and obligations	Does it belong to the Council?		✓	✓
Valuation and allocation	Is it included at an appropriate amount and properly recorded in the right place?		✓	✓

Appendix 3 – 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. The Code also needs auditors to 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 work performed by 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 comply with the Commission's policy on gifts, hospitality and entertainment.

Appendix 4 – Working together

Meetings

8 Our proposal for meeting with officers and committees is as follows.

Table 7 Proposed meetings with officers and committees

Council officers/committee	Audit Commission staff	Timing	Purpose
Borough Treasurer & Head of Assets	District Auditor and Audit Manager	Six weekly	General update plus: January - audit plan July and August - accounts progress September - annual governance report.
Head of Finance	Audit Manager and Team Leader	Every two months	Update on audit issues.
Senior Finance Manager and accountancy lead	Audit Manager and Team Leader	Monthly and every two weeks during July and August	Update on audit issues.
Governance and Constitution Committee.	District Auditor and Audit Manager, with Team Leader as necessary	As determined by the Committees.	Formal reporting of: Audit Plan, Annual governance report, Other as required.

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

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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