

Audit opinion plan

London Borough of Hammersmith and Fulham

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	3
Fee for the audit of financial statements	4
Specific actions London Borough of Hammersmith and Fulham could take to reduce its audit fees.....	4
Auditors report on the financial statements	5
Identifying opinion audit risks.....	5
Identification of specific risks	6
Testing strategy	7
Changes to International Standards on Auditing	7
The audit team	9
Independence and objectivity	9
Quality of service	10
Planned outputs.....	10
Appendix 1 Basis for fee	11
Assumptions	11
Appendix 2 Independence and objectivity	12
Appendix 3 2010/11 opinion audit - changes you can expect to see	14

Introduction

1 This plan sets out the audit work that we propose to undertake for the audit of the 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 for 2010/11;
- current national risks relevant to your local circumstances; and
- your 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.

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 £328,000 as indicated in my letter of 13 April 2010.

6 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- a complete set of working papers will be supplied at the commencement of the audit; and
- audit queries are resolved in a timely manner.

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. Where this is the case, we will discuss this in the first instance with the Director of Finance and Corporate Services and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions London Borough of Hammersmith and Fulham 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 Council could take to reduce audit fees.

Auditors report on the financial statements

10 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).

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 Council as at 31 March 2011.

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 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

13 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Risk area	Audit response
2010/11 is the first year that accounts are prepared in accordance with International Financial Reporting Standards. Prior year accounts will require restating.	We will audit the restated prior year accounts and will carry out early work where possible on the most technical areas: <ul style="list-style-type: none">■ leases;■ government and non-government grants;■ short-term employee benefits;■ segmental reporting;■ non-current assets; and■ disclosure.
The Council have a new income receipting system. Auditing standards require auditors to gain an understanding of information systems relevant to financial reporting.	We will document the new system to ensure we understand how it informs the production of the accounts.
The Council does not prepare group accounts as they are not judged as material to the user.	We will review the justification for not preparing group accounts to ensure it remains relevant.

Testing strategy

14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.

15 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).

16 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:

- restatement of the 2009/10 comparators on an IFRS basis;
- review of accounting policies;
- bank reconciliation; and
- cut-off testing.

17 Where other early testing is identified as being possible, this will be discussed with officers. Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

Changes to International Standards on Auditing

18 The audit of the financial statements I deliver to you is governed by a framework established by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

19 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project.

20 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.

21 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

22 Appendix 3 summarises the changes which relate to:

- journals;
- related party transactions;
- accounting estimates;
- group accounts; and
- reporting deficiencies in internal control.

The audit team

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

Table 2: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	j-hayes@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Julian McGowan Audit Manager	j-mcgowan@audit-commission.gov.uk 0844 798 2655	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and objectivity

24 I have identified one possible conflict of interest relating to a member of the audit team. This relates to the Audit Manager who has previously line managed a member of staff who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate this potential threat to my independence. These safeguards include my review of working papers prepared by the member of staff and of the work of the Audit Manager. Arrangements are also in place to ensure meetings between the member of staff and Audit Manager also involve a Principal Auditor. Finally, the Audit Manager will retain the Corporate Services Accountancy Manager as the primary contact for the audit.

25 Other than this, 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.

26 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.

Quality of service

27 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

28 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

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

Table 3: **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	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 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

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 2009/10;
- 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 at the commencement of the audit;
- 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.

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 Audit Committee. The auditor reserves the right, however, to communicate directly with the Council 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 2010/11 opinion audit - changes you can expect to see

Journals

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. My Audit Manager will discuss a suitable approach to this work soon.

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 assist 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 level of 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.

Group accounts

ISA (UK&I) 600 (Special Considerations - Audits of Group Financial Statements) introduces some new audit procedures for group auditors. As a result of the changes, you will see an increase in communication between yourselves, me and other entities within the group. I will also need to know:

- the controls involved in the group, for example, accounting policies used or how you manage different year ends;
- what is involved in the consolidation process; and
- whether any other auditors are used to audit part of the group.

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 further audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as those charged with governance.

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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