

Audit Opinion Plan

Kent County Council

Audit 2009/10

April 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

- 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.

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 indicative fee for the audit is £377,770 and is at scale fee level. 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.
- 6 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;
 - a full set of working papers matching our requirements is delivered with the draft financial statements for audit;
 - controls testing confirms a robust system of internal control that we can rely on to reduce the requirement for substantive testing; and
 - Internal Audit undertakes appropriate work on cut-off at the year end and this is available for our review by 17 May 2010.
- 7 Where these assumptions are not met, I will be required to undertake additional work which could result in an increased audit fee. Where this is the case, I will discuss this in the first instance with the Director of Finance and we will issue updates to the plan to setting out the reasons for the increase in fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Kent County Council 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 but at this time there are no matters to bring to your attention.

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) (ISA UK&I) 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 2010.

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:
 - establishing the nature of the Council's activities;
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council; and
 - assessing the Council's internal control arrangements - including reviewing the control environment, the IT control environment and Internal Audit.
- 13 I also seek information from those charged with governance of the Council, which is the Governance & Audit Committee, to help the opinion audit risk identification process. Appendix 2 is my letter to the Chairman of the Committee and is an important part of my professional responsibilities as your external auditor. The letter requests a response to how the Committee exercises its oversight of the Council's management in relation to the risk of fraud and of possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations.

Identification of specific opinion audit 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 opinion audit risks

Risk area	Assertions	Audit response
<p>Payroll controls:</p> <p>In previous years we have relied on a control over the process by which new starters become live records on the payroll system. With the introduction of the IDOX system, it is no longer possible for us to test this control for compliance.</p>	<p>Occurrence, Accuracy, Completeness</p>	<p>We have identified compensating controls that should reduce the risk of material error from invalid starters on the payroll system to an acceptably low level and we will continue to monitor the operation of the compensating controls to ensure they remain robust.</p>
<p>Kent Public Services Network:</p> <p>We noted that there has been an error in the accounting treatment for the costs of this project which although not material in 2009/10 would accumulate into a material error over the period of the underlying contract.</p> <p>As a result of this error, Revenue Expenditure Funded from Capital Under Statute (REFCUS) becomes a risk area for the opinion audit.</p> <p>We also noted that a capital grant has been utilised to fund revenue expenditure in relation to the project which is allowed by the SoRP but only in exceptional circumstances and that the accounting treatment had not been supported adequately.</p>	<p>Classification</p> <p>Classification</p> <p>Classification</p>	<p>We have agreed with officers an amended accounting treatment and we will review the financial statements to ensure it has been followed.</p> <p>We will test in detail expenditure treated as REFCUS to ensure that it is correctly classified in the financial statements.</p> <p>We have asked officers for the Council's justification for taking the capital grant to revenue. We will also review the financial statements for other capital grants to ensure their treatment can also be justified.</p>

Identification of specific opinion audit risks

Risk area	Assertions	Audit response
<p>Icelandic bank deposits: Over the past year the repayments of the Council's deposits in Icelandic banks have been revised. As a result, fair values and impairments for the outstanding deposits will need to be recalculated for inclusion in the accounts using the latest available information.</p>	<p>Valuation and allocation</p>	<p>We will review the calculations made and associated accounting entries.</p>
<p>Domiciliary care payments: We are aware of the ongoing issues within the systems used for payment of domiciliary care contracts and the work being done by officers to resolve them. Whilst this does not constitute a risk of material mis-statement in the financial statements, there is a significant degree of uncertainty in the year end position.</p>	<p>Completeness, Accuracy, Cut-off, Valuation and Allocation.</p>	<p>We will review the Council's working papers in support of entries in the financial statements to ensure that they are free from significant error.</p>
<p>East Kent Opportunities LLP: Draft accounts for this joint arrangement were not prepared within the Council's closedown timetable for the 2008/09 financial statements and this resulted in a series of significant matters being reported to you in our 2008/09 Annual Governance Report. There is a risk that if the accounts for the joint arrangement are not submitted to us with the 2009/10 draft financial statements for audit this year, similar significant errors will occur.</p>	<p>Valuation and Allocation, Rights and Obligations, Completeness, Classification and occurrence.</p>	<p>We have requested that draft accounts for EKO LLP be submitted to us with the working papers supporting the main financial statements.</p>
<p>VAT partial exemption limit: The Council has come very close to breaching the partial exemption limit of 5 per cent. Breaching that limit could result in a material financial liability for the Council.</p>	<p>Existence, Valuation and Allocation</p>	<p>We have concluded that this is not a material opinion risk but we will review any accounting entries made.</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. We have identified the following areas where substantive testing could be carried out early.
- review of accounting policies;
 - review of accruals at directorate level;
 - review of non-system income at directorate level;
 - fixed assets – confirmation of ownership and existence;
 - year end feeder system reconciliations; and
 - review of Impairments.

Where other early testing is identified as being possible, this will be discussed and agreed with officers.

- 18 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 cut-off.

Key milestones and deadlines

- 19 Although the Council is required to approve its financial statements by 30 June 2010 it produces its draft statements to an earlier timetable than most other councils. We expect to receive the draft accounts by 11 June 2010 and this should allow us to issue an interim Annual Governance Report to you on 30 June 2010 with our opinion on the by the end of July 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 20 We have agreed with officers a schedule of working papers required to support the entries in the financial statements.
- 21 At least once every week, we meet with the key officers and review the status of the matters arising from the audit. If appropriate.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	April and May 2010
Receipt of accounts	11 June 2010
Forwarding of audit working papers to the auditor	11 June 2010
Start of detailed testing	10 May 2010
Progress meetings	At least weekly
Present interim report at the Governance & Audit Committee	30 June 2010
Issue of opinion	By 31 July 2010
Audited accounts submitted	By 31 July 2010
Present final report to the Governance & Audit Committee	September 2010

The audit team

22 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
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 0844 798 6110	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Grahame Brown Audit Manager	g-brown@audit-commission.gov.uk 0844 798 6107	Coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Liz Robinson Audit Manager	e-robinson@audit-commission.gov.uk 0844 798 1377	Manages day-to-day work on the audit opinion.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Leads our audit team on a day-to day basis.

Independence and objectivity

- 23 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 3.
- 24 Ethical standards require auditors to continually evaluate any threats or perceived threats to their independence and objectivity. I have recently been made aware of a potential perceived threat to the independence of a member of the audit team which I am currently discussing with the Audit Commission's Head of Audit Practice. I will update members of the committee at its meeting on the 30 April 2010.

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.

The audit team

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 Neil Childs, Head of Operations (n-childs@audit-commission.gov.uk).
- 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.
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Planned outputs

- 28 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**

Planned output	Indicative date
Opinion audit plan	April 2010
Annual Governance Report	June 2010 (interim) and September 2010 (final)
Auditor's report giving an opinion on the financial statements	July 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 agreed work on cut-off to an appropriate standard such that we can place reliance on it for the purposes of our audit;
 - good quality working papers matching our requirements complete with explanatory narrative where appropriate and records will be provided to support the financial statements on 11 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 – Information request to the Governance & Audit Committee

Our reference KE079/gb

April 2010

Mr R L H Long
Chairman of the Governance & Audit Committee
Kent County Council
Sessions House
County Hall
Maidstone
Kent ME14 1XQ

Direct line 08447 986110
Direct fax 08477 986138
Email d-wells@audit-
 commission.gov.uk

Dear Mr Long

Assistance with our external audit of Kent County Council's financial statements 2009/10

As your external auditor I must comply with the framework set out within the International Standards on Auditing (UK & Ireland) and I am writing to you as the Chairman of the Governance & Audit Committee to seek your assistance.

The framework includes a requirement for ongoing communication between auditors and the members of the Committee, in their role as those charged with governance of the Council, to ensure that there is a mutual understanding of the scope of the external audit and for the two-way exchange of information in order that we can both fulfil our respective responsibilities.

One key aspect of this requires me to obtain information from the Committee as part of my planning of the audit of the financial statements for 2009/10. Please note that responding to my request does not expect any additional work by the Committee but seeks its current view based on its members' knowledge gleaned from the Committee's usual activities and from any other sources that they have.

Appendix 2 – Information request to the Governance & Audit Committee

Standard 240 requires me to obtain an understanding of how the Committee exercises its oversight of the Council's management in relation to the identification and reporting the risk of fraud and of possible breaches of internal control in the Council. Management's processes in this regard might include:

- undertaking an formal assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the Council;
- communications to employees on ethical behaviour and good business practice; and
- communications to the Committee of the processes for identifying and responding to fraud.

Standard 250 requires me to understand how the Committee gains assurance that the Council has complied with all relevant laws and regulations. A key area that might be considered in this area is the role and activities of the Council's Monitoring Officer.

I should be grateful for provision of the following information:

- a commentary on how the Committee oversees management processes to identify and respond to risks;
- is the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements for 2009/10? If such risks exist, I would like to know about them and the Committee's views on the likelihood of those risks materialising?;
- has the Committee any knowledge of any actual, suspected or alleged frauds affecting the Council?;
- has the Committee been put on notice of any actual or possible instances of non-compliance with laws or regulations?

I am interested in significant matters only. It could be that after discussion the Committee concludes that there are no matters to bring to my attention and this would be a satisfactory outcome to my request.

A response in the form of a short letter would be sufficient and it would be helpful to receive this by 14 May 2010. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Darren Wells
District Auditor

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 Governance and 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 4 – 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/contacts with officers

Council officers	Audit Commission staff	Timing	Purpose
Director of Finance	District Auditor and Audit Managers	Quarterly	General update on Council business plus: <ul style="list-style-type: none"> • February - audit plan • June - accounts progress • September - final annual governance report
Chief Accountant	Team Leader	Monthly or more frequently depending on stage of audit	Update on audit issues
Governance & Audit Committee	District Auditor and Audit Managers with Team Leader as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> Audit Plan Annual governance report Other issues as appropriate
Internal Audit	Audit Manager and Team Leaders	Quarterly	Update on systems, IT environment and fraud risks

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 exchange of documentation and working papers electronically;
 - use of telephone conferencing for meetings as appropriate; and
 - minimising travel when opportunities arise.

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, audio, or in a language other than English, please call 0844 798 7070.

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