

Accounts, Audit and Risk Committee

External Audit: Audit Plan 2010/11

19 January 2011

Report of Head of Finance

PURPOSE OF REPORT

This report sets out the work that the Audit Commission will undertake in order to form an opinion on the financial statements for 2010/11 taking into account risk which satisfies their responsibilities under the Audit Commission's Code of Audit Practice.

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| This report is public |
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Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report.

Executive Summary

Introduction

- 1.1 The 2010/11 audit plan attached in Appendix 1 sets out the audit work that the External Auditor proposes for the audit of financial statements and the value for money conclusion for 2010/11. This report also sets out the information required from internal audit and third parties.
- 1.2 As part of this audit process the Audit Commission will assess whether the statements are prepared without any material misstatements (whether due to fraud or error) and give an opinion on whether the statements are a true indication of the Council's financial affairs for the year 2010/11.
- 1.3 As part of this process the Audit Commission use a risk based approach to determine what work is required and this process is detailed in Appendix 1.
- 1.4 This approach has identified 3 specific risks –
 - a) The introduction of International Financial Reporting Standards (IFRS)
 - b) The government's Spending Review which requires every council across the country to make large financial savings.
 - c) The £10m redevelopment of Bicester Town Centre in partnership with

Sainsbury's

- 1.5 Risks a and b are common to all Councils preparing financial statements and we have been addressing these through the IFRS project team and our work on the Medium Term Financial Strategy.
- 1.6 Risk c is specific to Cherwell District Council and is being managed through project board which is facilitated by a dedicated service accountant. We have already had preliminary discussion with internal and external audit regarding the accounting treatment associated with the transaction.
- 1.7 The base fee for the 2010/11 audit is £120,000 which includes a rebate of £7,336 relating to a subsidy against the introduction of IFRS. The Audit Commission is currently consulting on a further reduction of 1.5% of the fee to reflect the reduction in work associated with value for money and reduction in work associated with IFRS as it is implemented. This would represent a budget saving of £1800. The district auditor will give the latest on fees at the committee meeting.
- 1.8 The audit of the financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern the external audit process.
- 1.9 In 2009 the auditing profession completed a comprehensive project to improve the clarity of all the ISAs. This was known as the Clarity Project. 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.
- 1.10 The new clarified framework will apply to audit's from 2010/11 and Appendix 2 highlights the main changes and how they will impact the audit of the financial statements. The District Auditor will take the committee through the report.

Conclusion

- 1.11 The risks identified will be monitored and this committee will receive updates as to how these have been considered in preparing the financial statements.
- 1.12 In summary the main changes associated with the revision of ISA's relate to:
 - Journals;
 - Related Party Transactions;
 - Accounting Estimates; and
 - Reporting deficiencies in internal control.

Consideration will be given to these in preparing the final closedown timetable and preparing the required working papers ahead of commencement of the audit.

- 1.13 The finance team will provide detailed working papers and analysis to assist the Audit Commission in completing their work in accordance with Appendix 1 and Appendix 2 and agreed timetable.
- 1.14 An audit opinion on the 2010/11 accounts will be given to this committee in September 2011.

Key Issues for Consideration/Reasons for Decision and Options

The following options have been identified. The approach in the recommendations is believed to be the best way forward

- Option One** To note the contents of the report
- Option Two** To raise issues or questions relating to this report

Implications

- Financial:** There are no direct financial implications from this report other than to note the proposals regarding fees.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159
- Legal:** There are no implications arising from this report
Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686
- Risk Management:** There are no implications arising from this report
Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Wards Affected

All

Document Information

| Appendix No | Title |
|----------------------------|---|
| Appendix 1 | Audit Opinion Plan 2010/11 |
| Appendix 2 | Opinion Audit – changes you can expect to see |
| Background Papers | |
| None | |
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