

Audit Opinion Plan

Warwickshire Police

Audit 2009/10

June 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 fee for the audit is £78,950, as indicated in my letter of 28 April 2009.
- 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; and
 - good quality working papers will be supplied to support the audit of the 2009/10 financial statements in accordance with our working paper requirements.
- 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 Resources 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 Warwickshire Police 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.

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 Authority 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:
 - identifying the business risks facing the Authority, including assessing your own risk management arrangements;
 - considering the financial performance of the Authority;
 - 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 Authority 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 arising from work to date

Specific opinion risks identified

Risk area	Audit response
<p>There were problems identified with the methodology for compiling the cash flow statement during the 2008/09 audit of the accounts. The errors found were of a material nature, but did not affect the bottom line. A revised statement was produced. There is a risk that the statement may be misstated in 2009/10.</p>	<p>We understand that a review has been made of the methodology. We will undertake substantive testing of the cash flow statement.</p>
<p>The 2008/09 Annual Governance Report (AGR) reported two control failures, both related to the initiation of debtors. However due to the timing of the report, the Authority will not have been able to correct the problem reported for the full financial year.</p>	<p>We are satisfied controls are now in place, but not for the full financial year (ie from 01 April 2009). As an alternate approach to gaining our assurance, we will undertake substantive testing to gain assurance over sundry debtors in the accounts.</p>
<p>The bank reconciliation failed the walkthrough test as there was no documentation to support the bank reconciliation for the month chosen. This was due to a system failure with the online banking system. Another month chosen had not been signed by a reviewer. We were satisfied that the reconciliation had been performed, this issue concerns the fact that the controls could not be evidenced.</p>	<p>We have discussed contingency plans with officers and are satisfied that mitigating controls are in place. We will, as a mandated audit requirement, undertake substantive testing on the year-end bank reconciliation.</p>
<p>Our review of NFI matches identified that two members need to update the Register of Interests to include their membership on a related party board</p>	<p>We will review the register of interests and related party disclosure note to ensure this is complete.</p>

Table 2 Specific risk arising from changes to SoRP and changes to Accounts and Audit Regulations

Specific opinion risks identified

Risk area	Audit response
<p>The 2009 SoRP states that there is a requirement to disclose appropriate shares of Council Tax debtors in the billing authorities' and major preceptors' Balance Sheets. This is applicable to the Authority as it is a major preceptor and will need to include the share of Council Tax debtors from the five districts.</p>	<p>We will review the accounting treatment to ensure compliance with the SoRP.</p>
<p>The 2009 SoRP states that disclosure is required for all elements of members' allowances paid in the year under various headings.</p>	<p>We will review the disclosure to ensure compliance with the SoRP.</p>
<p>CIPFA has updated BVACOP for the new service expenditure analysis for police services, which will apply to the 2009/10 financial statements. This also requires authorities to restate comparative figures. The new objective analysis is more detailed with nine service divisions instead of being a single line in the accounts.</p>	<p>We understand that the Authority has set up a new hierarchy of ledger codes in order to comply with the new BVACOP analysis.</p> <p>We will review the accounting treatment to ensure compliance with BVACOP for the current year & restated comparatives.</p>
<p>Changes to the accounts and audit regulations (SI 2009/3322) issued in December 2009 mean that authorities are required to disclose the names, pay and benefits (including severance payments) of senior employees in a note to the financial statements.</p>	<p>We will review the disclosure to ensure compliance with the new regulations.</p>

Testing strategy

- 14 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.
- 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. Where other early testing is identified as being possible, this will be discussed with officers.
- 17 International auditing standards allow us to test the controls in a particular system one audit in three, in certain circumstances (where there is not a significant risk of material misstatement and the system is unchanged). In the current year we are planning to test the controls in the systems noted below.
 - General ledger.
 - Creditors.
 - Payroll.
- 18 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we have not been able to use internal audit work as they have not undertaken work on the systems we are control testing.

Materiality and unadjusted misstatements – Main statements

- 19 For the main statements our materiality is calculated at 1 per cent of gross expenditure or if unearmarked general fund reserves are greater than we can increase materiality to the level of these. For planning purposes we have determined this to be £2 million.
- 20 For the police pension fund account our materiality is calculated at 1 per cent of contributions receivable or benefits payable (whichever is higher). For planning purposes we have determined this to be £183,000.
- 21 International auditing standards require us to report any non-trivial unadjusted misstatements to 'those charged with governance.'
- 22 Tables 3 and 4 set out what action we will take on any unadjusted misstatements in the accounts based on the value of the misstatements.

Table 3 Levels of action main statements

Classification of unadjusted misstatements	How classification is determined	Potential classification values	Consider qualification of opinion	Consider reporting to those with governance	Report misstatement to officers
Material	Above materiality	>£2m	Yes	Yes	Yes
Non-trivial	Above trivial but less than materiality	> £20k and < £2m	No	Yes	Yes
Trivial	Lower of 1% of materiality of £500k	< £20k	No	No	No

Table 4 Levels of action police pension fund account

Classification of unadjusted misstatements	How classification is determined	Potential classification values	Consider qualification of opinion	Consider reporting to those with governance	Report misstatement to officers
Material	Above materiality	>£183k	Yes	Yes	Yes
Non-trivial	Above trivial but less than materiality	> £1.8k and < £183k	No	Yes	Yes
Trivial	Lower of 1% of materiality of £500k	< £1.8k	No	No	No

Key milestones and deadlines

- 23 The Authority is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 5.
- 24 We have provided officers with a schedule of working papers required to support the entries in the financial statements.
- 25 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 5 Proposed timetable

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	June 2010
Forwarding audit working papers to the auditor	To be made available by 26 July 2010
Start of detailed testing	26 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Committee	During September 2010 date TBA
Issue opinion	By 30 September 2010

The audit team

26 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 6 **Audit team**

Name	Contact details	Responsibilities
Dave Rigg District Auditor	d-rigg@audit-commission.gov.uk 0844 798 1105	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Authority Treasurer and Force Director of Resources.
Joan Barnett Audit Manager	j-barnett@audit-commission.gov.uk 0844 798 3963 or 0796 636 4515	Manages and coordinates the different elements of the audit work. Key point of contact for the Assistant Director of Resources (Finance).
Denise Mills Team Leader	d-mills@audit-commission.gov.uk 07837 385370	Team leads the audit and key point of contact for the Accountants.

Independence and objectivity

- 27 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.
- 28 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.

The audit team

Meetings

- 29 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 3.
-

Quality of service

- 30 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 the West Midlands Head of Operations.
- 31 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

- 32 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
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Table 7 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	June 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	By 30 September 2010
Final accounts memorandum	November 2010 (if required)
Annual audit letter	30 November 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 Authority with reference to:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Authority 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;
 - good quality working papers and records will be provided to support the financial statements by 26 July 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 – 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 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 3 – 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 8 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Treasurer & Director of Resources	DA & AM	Quarterly	General update plus: <ul style="list-style-type: none"> • Annual governance report.
Assistant Director of Resources (Finance)	AM and Team Leader (TL)	Quarterly	Update on audit issues
Audit Committee	DA and AM	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan; • Annual governance report; and • Other issues as appropriate.

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 encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

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, covering the £180 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

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