

Audit plan

Wirral Council

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.

Content

Introduction	3
Responsibilities	4
Fee for the audit	5
2010/11 audit fee	5
Specific actions Wirral Council could take to reduce its audit fees	6
Joint working protocol	6
Auditors report on the financial statements	7
Audit report	7
Materiality	7
Identifying opinion audit risks	7
Identification of specific opinion risks	8
Testing strategy for the opinion audit	11
Value for money conclusion	13
Key milestones and deadlines	14
Financial statements audit	14
VFM conclusion	16
The audit team and key contacts	18
The audit team	18
Key officer contacts	20
Key member contacts	21
Appendix 1 Joint working protocol	22
Introduction	22
Audit approach	22
Pre-statements audit	23
Post-statements audit	24
What I expect from you	25
Meetings	26
Sustainability	27

Appendix 2 2010/11 Opinion audit - changes you can expect to see28
International Standards on Auditing.....28
Impact of the main changes.....28

Appendix 3 Independence and objectivity30

Appendix 4 Glossary32

Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 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.

2 I will discuss and agree this plan, and any reports arising from the audit, with the Audit and Risk Management Committee.

3 Wirral Council is the administering body for Merseyside Pension Fund (MPF) and the accounts of the latter are included within the statement of accounts for the Council. The Audit and Risk Management Committee has responsibility as the body charged with governance for receiving, considering and agreeing the MPF audit plan, as well as receiving and considering any reports arising from the audit. There is a separate audit plan for the MPF audit which will be presented to the Pensions Committee and the Audit and Risk Management Committee in January 2011. We do not issue a value for money (VFM) conclusion separately for the Pension Fund.

4 The audit planning process for 2010/11 for both the Council and MPF, including the risk assessment, will continue as the year progresses and the information and fees in these plans will be kept under review and updated as necessary.

Responsibilities

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.

5 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.

6 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998;
- the Code of Audit Practice; and
- the Auditing Practice Board practice note 15 on the audit of pension fund accounts.

Fee for the audit

The fee for the audit is £392,000, as indicated in my letter of 15 April 2010.

2010/11 audit fee

7 The Audit Commission scale fee for Wirral Council is £363,000. The fee proposed for 2010/11 is 8 per cent above the scale fee and is within the normal level of variation specified by the Commission.

8 However, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation has been delayed.

9 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;
- no significant risks are identified;
- good quality working papers will be supplied by the agreed dates to support:
 - the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS);
 - interim testing;
 - the post-statements audit;
- Internal Audit meets the appropriate professional standards and undertakes appropriate work on agreed material systems which is available for our review by mid February 2011;
- the Council maintains a sound control environment;
- we are provided with complete and materially accurate financial statements by the agreed date;
- the fee for the value for money conclusion is as planned;
- you will inform me of significant developments impacting on the audit
- you provide:
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

10 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 I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

Specific actions Wirral Council could take to reduce its audit fees

11 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 and to provide ongoing audit support. The actions that the Council can take to help to reduce the fee include:

- Manage and respond to issues and complaints raised within the Council and by members of the public to reduce the issues brought to our attention.
- Manage and mitigate significant audit risks.
- Demonstrate that there is a sound control environment.
- Provide us with complete and materially accurate financial statements and other evidence:
 - with good supporting working papers; and
 - within agreed timeframes.

Joint working protocol

12 My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code.

13 I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. I have attached a document at Appendix 1 which reflects my commitment to promote productive joint working between my audit team and your officers.

Auditors report on the financial statements

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).

Audit report

14 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.
- The Pension Fund as at 31 March 2011.

Materiality

15 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

16 As part of our audit risk identification process, we need to fully understand the Council 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.

Identification of specific opinion risks

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

17 The table below includes all material 'specific' and 'significant' risks. Our audit response to significant risks includes a review of controls as well as tests of detail.

Table 1: **Specific opinion risks**

Specific opinion risks are set out below and will be updated as the audit progresses

Risk area	Audit response
IFRS transition – Council rated at amber in last IFRS survey but red on leases. Progress still behind schedule. Risk that 2010/11 accounts are materially misstated as new accounting requirements have not been considered or implement correctly by the Council.	Ongoing discussions with Council officers to assess impact of change. Review of restated balances and comparatives. Accounting treatment followed will be reviewed to ensure that it meets the requirements of the IFRS Code.
Change in senior management – changes to Chief Executive and Directors for Corporate Services, Regeneration, Adult Social Services, Children and Young People. Risk that disruption reduces level of supervision and review and therefore operation of high level controls.	Ongoing discussions with Council officers, including Internal Audit to assess impact of changes. Controls testing. Ongoing review of the control environment.
Financial pressures – following significant reduction in central government funding, the Council is experiencing significantly increased financial pressures. Increased risk of financial misreporting (considered in fraud risk assessment)	Discussions with senior Council officers regarding controls that mitigate the risk of fraud. Letters of assurance to be obtained from management and those charged with governance (TCWG) Monitoring of the Council's reported financial performance. Completion of a fraud risk assessment. Review of the Letter of Representation.

Risk area	Audit response
<p>Voluntary redundancy (VR) – a significant number of staff at the Council are expected to leave employment during 2010/11 and 2011/12. Risks that key staff at the Council leave thereby putting pressure on the arrangements to complete the audit, and increasing pressure on management to demonstrate VR process generates savings. We will also need to consider the accounting treatment in 2010/11 (e.g. how will severance payments be accounted for and ultimately funded as not in 2010/11 budget)</p>	<p>Ongoing discussions with Council officers to assess impact of the change.</p>
<p>Closedown arrangements – working papers and accounts not provided on time, significant issues identified during 2009/10 were not resolved until relatively late in the audit. Risk that if repeated in 2010/11 the audit will not be completed as audit resourcing window is missed (audit team ‘onsite’ prior to working papers and accounts) and material issues are not resolved prior to opinion deadline</p>	<p>Key milestones and timetable is communicated in Table 2 of this plan and will be reported to members on an ongoing basis in our Progress reports.</p>
<p>Manual entries in accounts – weakness identified in respect of journals, off ledger adjustments, changes in senior management and deficiencies in asset records.</p>	<p>All material journals will be reviewed. Review audit trail between accounts and ledger produced to identify entries requiring testing.</p>
<p>Housing benefits expenditure and grant income – our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts</p>	<p>We will agree amounts in the housing benefits system to the general ledger at the year end. We will complete sufficient work on the housing benefit subsidy claim to demonstrate that the claim is not materially misstated.</p>
<p>I identified 19 non-trivial misstatements (including 3 material misstatements) in the 2009/10 audit – the risk of reoccurrence will be considered and reflected in our audit testing strategy. Issues arising included:</p> <ul style="list-style-type: none"> ■ PFI schools transferred to foundation status. ■ Statement of recognised gains and losses (STRGL). ■ Balance sheet assets. ■ Service expenditure analysis on the income and expenditure account. ■ PFI - lifecycle costs. ■ Bad debt provision for council tax. 	<p>All misstatements identified in the 2009/10 audit will be carried forward and specifically considered in 2010/11. In particular, we will review:</p> <ul style="list-style-type: none"> ■ the current status of schools and discuss the appropriate accounting treatment with officers; ■ the aged debtor and debt recovery analysis to support the reasonableness of the bad debt provision calculation; and ■ any relevant Local Authority Accounting Panel (LAAP) bulletins.

Risk area	Audit response
<p>There were seven unadjusted misstatements identified in the 2009/10 audit – the value of unadjusted misstatements previously identified must be considered in conjunction with any misstatements identified in the 2010/11 audit.</p>	<p>We will assess the value of all the unadjusted misstatements from 2009/10.</p>
<p>Asset records – weaknesses were identified in previous audits in relation to the Council’s asset records. If no action is taken there is a risk of misstatement in the following areas:</p> <ul style="list-style-type: none"> ■ existence of VPE; ■ capitalisation of expenditure on infrastructure assets; and ■ completeness of community assets. 	<p>Progress against the action plan agreed in the 2009/10 AGR will be monitored throughout the year.</p> <p>Year end substantive testing will be performed specifically addressing the risk areas identified.</p>
<p>Annual governance statement (AGS) - concerns that the statement did not comply with CIPFA guidance and was inconsistent with our knowledge of the Council.</p>	<p>Discussions with members, the ARMC, senior officers and Internal Audit.</p> <p>Early review of the draft AGS presented to members in March 2011.</p>

Testing strategy for the opinion audit

On the basis of risks identified above I 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.

18 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). Details of our approach are set out at Appendix 1. The first area of testing will be the review of your restated 2009/10 balances under IFRS.

Proposed early testing

19 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- IFRS restatement.
- Review of accounting policies.
- Bank reconciliation and third party confirmation.
- Investments – ownership.
- Property plant and equipment - ownership and physical verification; in-year impairment, revaluations and disposals.
- IFRIC 12/PFI and leases.
- Year-end feeder system reconciliations.
- Provisions and reserves - minute reviews; review process for estimating provisions; and review management processes for continuing provisions.
- Annual Governance Statement - review compliance with CIPFA guidance and consistency with our knowledge of the Council.

20 Where I identify other possible early testing, I will discuss it with officers.

Internal Audit

21 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of some Internal Audit work including payroll.

Reliance on other auditors and experts

22 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities.

23 For 2010/11, I plan to rely on the work of other auditors in the following areas:

- IAS19, Pension disclosures - A formal protocol has been developed to enable the auditor of the pension scheme administering authority to perform a number of procedures on behalf of admitted body appointed auditors. This assists the admitted body auditor in gaining assurance and minimises any duplication of work. My team audits Merseyside Pension Fund.

24 I also plan to rely on the work of experts in the following areas:

- Valuation:
 - Wirral Council in-house valuer;
 - Gerald Eve external valuation information provided to the Audit Commission; and
 - IAS19 pension fund valuation performed by the actuary (Mercers), property valuation (Colliers) and investment valuations are included in the MPF plan and protocol.

Changes to International Standards on Auditing (ISAs)

25 In the Progress Report presented to members of the Audit and Risk Management Committee in November 2010 we drew your attention to the impact of the Clarity Project on our audit approach. This is re-produced at Appendix 2 and covers clarification of the approach to:

- journals;
- related party transactions;
- accounting estimates;
- reporting deficiencies in internal control; and
- evaluating misstatements.

Value for money conclusion

I am required to give a statutory value for money (VFM) conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

26 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

27 I will undertake my risk assessment for the VFM conclusion later in the year and communicate with you further then. I will plan a programme of VFM audit work based on my risk assessment.

Key milestones and deadlines

The Council is required to prepare and approve the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

Financial statements audit

28 The key stages in producing and auditing the financial statements are set out in the table below.

29 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

30 Every week, during the post-statements audit, the audit team will meet with the key contact and review the status of all queries. We will arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Agreed timetable for the financial statements audit**

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes

Activity	Date
Agreement of plan with officers.	Draft by mid December 2010 Final by end December 2010
Progress meetings with officers pre statements.	Monthly
Training provided by officers to ARMC members on IFRS.	January 2011 March 2011 June 2011
Presentation of plans to members of ARMC.**	ARMC 17 January 2011
Audit progress reports to ARMC.	17 January 2011 28 March 2011 June 2011 September 2011 November 2011

Activity	Date
Receipt of IFRS restated accounts by ARMC and auditor:	
<ul style="list-style-type: none"> ■ Opening balance sheet at 1 April 2009; and ■ Comparative figures for 2009/10 for all the statements. 	<p>31 December 2010</p> <p>Mid January 2011</p>
Working papers for IFRS restatement provided to the auditor.	Mid January 2011
Audit of IFRS restated accounts.	Mid January to mid February 2011
Feedback to officers and members on the audit of the IFRS restated accounts.	Officers by end February ARMC 28 March 2011 - in Progress report
ISA+315 knowledge of the entity including documenting and walking through material information systems.	December 2011 - January 2011
Evaluating the control environment including IT controls.	December 2010 - January 2011
Controls and relevant early substantive testing.	Mid January to mid February 2011
Feedback to officers and members of ARMC on the pre-statements audit.	Officers by end February ARMC 28 March 2011 - in Progress report
ARMC consider draft Annual Governance Statement (AGS) presented by officers.	ARMC 28 March 2011
Any further early substantive testing.	Mid June 2011
Receipt of pre-audit accounts** by:	16 June 2011
<ul style="list-style-type: none"> ■ ARMC - to review prior to challenge and approval at meeting by 30 June 2011; and ■ auditor - to complete detailed post-statements planning prior to fieldwork. 	
Pensions Committee to challenge MPF accounts and make recommendations to ARMC.	Before ARMC meeting (by 30 June 2011)
ARMC to challenge and approve accounts, including AGS and Pension Fund Statements.	By 30 June 2011
Working papers provided to the auditor.	1 July 2011
Start of detailed testing on main statements.	4 July 2011
Progress meetings with officers post-statements.	Weekly
Completion of fieldwork on main statements.	5 August 2011
Receipt of Whole of Government Accounts (WGA) and working papers.	22 July 2011
Completion of fieldwork on WGA.	15 August 2011

Activity	Date
District Auditor review of audit work.	15 August 2011
Agreement of errors and uncertainties for Finance to complete covering reports and amend statements.**	19 August 2011
Draft Annual Governance Reports from Audit Commission to officers.**	5 September 2011
Meeting with officers to agree final AGRs** (AGRs will highlight any outstanding issues that will be updated at meetings with members).	Meetings by 7 September 2011 Final AGRs by 12 September 2011
Pensions Committee - to consider the Pension Fund AGR and any action plan, any amendments to statements and the Letter of Representation - to make recommendations to ARMC.	Before ARMC meeting below (by 30 September 2011)
ARMC to:	By 30 September 2011
<ul style="list-style-type: none"> ■ consider the matters raised in the Pension Fund AGR and the recommendation of the Pensions Committee; ■ consider the matters raised in Wirral Council's AGR and any tabled or verbal update on outstanding issues; ■ take note of any adjustments to the financial statements and agree to adjust the errors in the financial statements management has declined to amend or set out the reasons for not amending the errors; ■ approve the letter of representation on behalf of the Council and for the Pension Fund; ■ agree the Council's response to the proposed action plans; and ■ re-approve the financial statements. 	
District Auditor to issue opinions** (and value for money conclusion). Audited accounts published by the Council.**	By 30 September 2011
WGA return certified and submitted by District Auditor.	1 October 2011

** on both Pension Fund and main Council statements

VFM conclusion

31 As noted above, I will undertake my risk assessment for the VFM conclusion later in the year and communicate with you further then. I will plan a programme of VFM audit work based on my risk assessment but the indicative timetable is set out in the table below.

32 I will agree with you a schedule of working papers required to support our assessment. The agreed fee is dependent on the timely receipt of appropriate working papers.

33 During the VFM audit the audit team will meet with the key contact bi-monthly and review the progress of our work. We will arrange meetings with key members and officers as appropriate.

Table 3: **Agreed timetable for the value for money audit**

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes

Activity	Date
Agreement of plan with officers following our risk assessment.	Draft by mid January 2011 Final by end January 2011
Progress meetings with officers.	Bi-monthly
Audit progress reports to ARMC.	17 January 2011 28 March 2011 June 2011 September 2011 November 2011
Fieldwork.	January - April 2011
Interim feedback to lead director.	June 2011
Consideration of final evidence of outcomes and agreement of draft value for money conclusion.	July - August 2011
Draft Annual Governance Report from Audit Commission to officers.	5 September 2011
Meeting with officers to agree final AGR.	Meetings by 7 September 2011 Final AGRs by 12 September 2011
ARMC to:	By 30 September 2011
<ul style="list-style-type: none"> ■ consider the matters raised in Wirral Council's AGR, including the VFM conclusion; and ■ agree the Council's response to the proposed action plans. 	
District Auditor to issue opinion and value for money conclusion. Audited accounts containing value for money conclusion published by the Council.	By 30 September 2011

The audit team and key contacts

The audit team will work with the key contacts to ensure we deliver a safe opinion and robust value for money conclusion.

The audit team

34 The table below shows the key members of the audit team for the 2010/11 audit.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Mike Thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 798 7043	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Leader.
Liz Temple-Murray Audit Manager	l-temple-murray@audit-commission.gov.uk 0151 666 3483	Manages, coordinates and quality assures the different elements of the audit work. Key point of contact for the Director of Finance and the Chair of the Audit and Risk Management Committee. Prepares reports on the Council including the Annual Governance Report and Annual Letter.
Caroline Davies Audit Manager	caroline-davies@audit-commission.gov.uk 0151 666 3481	Support Manager for Wirral Council. Manages work on and key contact for Merseyside Pension Fund Annual Governance Report for Merseyside Pension Fund.
Richard Tyler Team Leader	r-tyler@audit-commission.gov.uk 0151 666 3484	Leads fieldwork on opinion and value for money conclusion work. Key point of contact for and liaison with the Head of Financial Services, Chief Accountant and Internal Audit.

Source: Audit Commission December 2010

Independence and objectivity

35 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

36 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Meetings

37 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out at Appendix 1.

Quality of service

38 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.

39 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

40 My team will discuss and agree reports with appropriate officers before issuing them to the Audit and Risk Management Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Progress reports	January, March, June, September and November 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and value for money conclusion	By 30 September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

Key officer contacts

41 The key officer contacts for the audit are set out in the table below:

Table 6: **Key officer contacts**

Officer	Contact details	Responsibilities
Jim Wilkie Interim Chief Executive	jimwilkie@wirral.gov.uk 0151 691 8589	Accountable Officer Governance framework and signing the Annual Governance Statement.
Ian Coleman Director of Finance	iancoleman@wirral.gov.uk 0151 666 3056	Section 151 Officer Preparation and certification of accounts that present a true and fair view of the financial position of the Council and Merseyside Pension Fund at 31 March 2010. Agreement of final AGRs.
Bill Norman Director of Law, Asset Management and HR	billnorman@wirral.gov.uk 0151 691 8498	Monitoring Officer Considering the legality of transactions.
Tom Sault Head of Financial Services	tomsault@wirral.gov.uk 0151 666 3407	Preparation and quality assurance of accounts that present fairly the financial position of Wirral Council at 31 March 2010. Agreement of draft AGR for Wirral Council.
Jenny Spick Chief Accountant - Operations	jennyspick@wirral.gov.uk 0151 666 3582	Preparation of accounts and coordination and liaison during the audit.
Dave Garry Chief Internal Auditor		Review of and assurance on risk management, corporate governance and financial control.

Source: Wirral Council December 2010

42 In addition, other directors and senior officers within the Council are responsible for providing financial and other information to inform the accounts and value for money conclusion and to cooperate with corporate finance and the auditor during the audit.

Key member contacts

43 The key member contacts and the roles of respective members are set out in the table below.

Table 7: **Key member contacts**

Member	Contact details	Responsibility
Councillor Jeff Green Leader of the Council	jeffgreen@wirral.gov.uk	Governance framework and signing the Annual Governance Statement
Simon Mountney Chair of the Audit & Risk Management Committee	simonmountney@wirral.gov.uk	Approves and signs the accounts (including the Pension Fund accounts) on behalf of the Council

Source: *Wirral Council December 2010*

44 In addition, all members of the Audit & Risk Management Committee are responsible for

- the approval of the Council's statement of accounts by 30 June each year; and
- the responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

Appendix 1 Joint working protocol

Introduction

My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code. I issue an audit opinion on whether your financial statements fairly state your financial position and transactions for the year ended 31 March 2011.

I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. This document reflects my commitment to promote productive joint working between my audit team and your finance team.

Audit approach

To support effective joint working I want you understand my approach to delivering your audit. The table below shows a summary of my approach and my proposed timetable. The changes to the approach for the 2010/11 audit resulting from the update to International Standards on Auditing (ISAs) is set out at Appendix 2.

Table 8: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that you expect to be included in the financial statements.	From November 2010 to April 2011
2. Post-statements	Testing the material balances and notes within your approved financial statements.	From May 2011 to September 2011

I expect my team to work closely with you throughout the opinion audit. Table 2 of the Audit plan shows the meetings and key milestones scheduled throughout the year.

Pre-statements audit

Documenting and walking through your systems

I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed that there have been no changes to that system I simply walk through the system to confirm my understanding.

Identifying and testing key controls

Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

Testing that these key controls are operating effectively provides me with assurance that there is a reduced risk that your financial statements are free from material error. It also enables me to report to you any deficiencies in your system of internal control.

Wherever possible I will seek to rely on the work undertaken by internal audit in respect of your key controls. My team meets regularly with internal audit to discuss the scope and timing of our respective audit plans. This includes, identifying the key controls within each material information system. If I do seek to place reliance on internal audit I will review and evaluate their work.

Control environment and Information Technology (IT) controls

I consider the strength of your control environment and general IT controls in assessing if your financial statements are free from material misstatement.

As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management and the Audit and Risk Management Committee (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations.

In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

Early testing of material balances and notes

I am aware that the post-statements stage of my audit falls during a busy period for your finance team. Therefore, I know that you are keen that I reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

During the pre-statements audit, I will agree with your finance team, any aspects of your financial statements that will be known before the year end. For example, I can test any in-year material additions or disposals of property, plant and equipment rather than test them at the year end.

Post-statements audit

At the post statements stage of the audit I focus my work on testing of the material balances and notes within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from Internal Audit and any changes in accounting practice and SORP. As a result the work undertaken and requests for further information may differ to previous years. However, I will ensure that I provide the finance team with an outline timetable of when auditors will be reviewing which aspects of the financial statements.

Obtaining external confirmations

There will be instances where the most appropriate effective method of obtaining audit evidence is by obtaining external confirmations. External confirmations are most commonly used with regards to the confirmation of balances. Examples of where I use them include:

- Bank balances and other information from bankers.
- Investments.
- Property title deeds held externally, for example by solicitors.

You will need to give permission to these third parties to release information which will be requested by me in due course.

Reporting

I am required by auditing standards to report the results of my work to the Audit and Risk Management Committee as those charged with governance. I do this in the Annual Governance Report. This report will include the significant findings identified from my audit work. There will also be a separate Annual Governance Report for the Pensions Fund which will go in the first instance to the Pensions Committee for it to consider the issues arising during the audit and for it to make any recommendations to the Audit and Risk Management Committee.

What I expect from you

I have outlined to you my audit approach so that you know what to expect from me and my audit team. To deliver an effective and efficient audit our respective teams need to work collaboratively. The following paragraphs outline my expectations from you.

- access to key finance staff;
- notification of when key staff are unavailable;
- fast resolution of audit queries and issues (this would ordinarily be within two working days);
- relevant and available working papers in accordance with your closedown timetable. Working papers should be:
 - cross referenced to all accounting systems and other sources of information where possible - any judgements should be supported by reference to the appropriate accounting standards;
 - clearly labelled and headed;
 - accompanied by clear audit trails to individual transactions making up the balance;
 - signed and dated; and
 - ideally provided in an electronic format.

I recommend that you include all balances over £8.7 million in the working paper files, with detailed supporting documentation for any transactions over £6.5 million. As part of the post statements audit I may request further information for 'drilling down' into transaction listings for testing. Finance staff should ensure that this information is retained and is readily available.

I also recommend that you provide these working papers at the beginning of the post statements audit. This will reduce the time that finance staff have to spend dealing with audit queries. Any delays in the provision of adequate working papers or in the resolution of queries will impact on the audit programme and may lead to a delay in issuing the opinion and an increase in the fee that I have agreed for the audit.

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers and members.

My proposal for the meetings is as follows.

Table 9: **Proposed meetings with officers and members**

Council officers/members	Audit Commission staff	Timing	Purpose
Leaders of each group	DA and AM	Bi-annually	General update
Chief Executive	DA and AM	Quarterly	General update plus: March - audit plan October - annual audit letter
Chair of the Audit and Risk Management Committee	DA and AM	Prior to each Committee meeting	General update
Audit and Risk Management Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate
Director of Finance	DA and AM	Monthly	General update plus: March - audit plan July - accounts progress September - annual governance report
Other corporate and service directors	DA and AM	Quarterly	General update
Head of Finance and Chief Accountant	AM and TL	Monthly (TL and Chief Accountant weekly during post statements)	Update on audit issues
Chief Internal Auditor	AM and TL	Quarterly	General update

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I 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.

Appendix 2 2010/11 Opinion audit - changes you can expect to see

International Standards on Auditing

As your appointed auditor, 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.

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.

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.

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.

In summary the main changes you will see relate to:

- Journals;
- Related Party Transactions;
- Accounting Estimates;
- Reporting deficiencies in internal control; and
- Evaluation of misstatements.

Impact of the main changes

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. We 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.

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 the Audit and Risk Management Committee as those charged with governance.

Evaluation of misstatements

ISA (UK&I) 450 (Evaluation of misstatements identified during the audit) requires me to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. I will also communicate to you the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, balances or disclosures, and the financial statements as a whole.

When determining whether uncorrected misstatements are material, I am now required to consider the effect of uncorrected misstatements related to prior periods.

Appendix 3 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 and Risk Management 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 seven years, with additional safeguards in the last two 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 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Directors

Senior officers who are collectively and individually responsible for the overall direction and control of the audited body. The chief executive is responsible to Cabinet for the day-to-day management of the organisation but, as accountable officer, is also responsible for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946