

# Audit Opinion Plan

Central Durham Crematorium Joint Committee  
Audit 2009/10

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# Introduction

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- 1 This plan sets out the audit work that we propose to undertake for the audit of Central Durham Crematorium Joint Committee's (the Committee's) 2009/10 financial statements. 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

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- 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

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- 5 The fee for the audit is £13,000, as indicated in my letter of 1 April 2010. In setting the fee, we assumed that:
  - we will not identify any significant audit risks;
  - the Committee has begun to address the weaknesses in its control environment which were identified in 2008/09;
  - you will have improved processes for producing the draft financial statements and will provide us with complete and materially accurate financial statements;
    - with supporting working papers; and
    - within agreed timeframes.
- 6 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 officers and we will issue supplements to this plan to record any revisions to the risk and the impact on the fee.
- 7 Further information on the basis for the fee is set out in Appendix 1.

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## Specific actions the Committee could take to reduce its audit fees

- 8 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 Committee could take and to provide ongoing audit support.

# Auditors report on the financial statements

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- 9 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).
- 10 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 Committee as at 31 March 2010.

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## Identifying opinion audit risks

- 11 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 have done this by:
  - identifying the business risks facing the Committee, including assessing your own risk management arrangements;
  - considering the financial performance of the Committee;
  - 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 Committee's information systems.

# Identification of specific risks

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

**Table 1**      **Specific risks**  
Specific opinion risks identified

| Risk area   | Audit response   |
|---|--|
| <p><b>Internal Control</b><br/>Our work on the Committee's financial systems has shown there has been notable improvement since 2008/09. However, there are some remaining gaps in control that need to be addressed in future years. The main reason for these gaps relate to the manual nature of the Committee's General Ledger.</p>   | <p><b>Payroll:</b> We will carry out predictive analytical review to satisfy ourselves that staff costs disclosed in the draft financial statements is complete.<br/><b>Accounts payable:</b> we will substantively test expenditure in 2009/10.<br/><b>Income:</b> We will carry out predictive analytical review to satisfy ourselves that income disclosed in the draft financial statements is complete.</p> |
| <p><b>Compliance with SORP requirements</b><br/>Last year's audit highlighted significant scope to strengthen year end arrangements to ensure that the draft financial statements:</p> <ul style="list-style-type: none"> <li>• are prepared in a timely fashion to ensure approval by members by the 30 June deadline;</li> <li>• meet disclosure requirements; and</li> <li>• are free from error.</li> </ul> | <p>Review arrangements for producing the draft financial statements.<br/>Complete a checklist to ensure SORP disclosure requirements are met.<br/>Detailed testing on the draft financial statements.</p>  |
| <p><b>Statement of accounting policies</b><br/>Last year's audit found that the statement of accounting policies disclosed in the draft financial statements contained a number of key omissions and did not meet SORP requirements.</p>  | <p>Review the statement of accounting policies to ensure all key polices are disclosed, appropriate and accurately reflect processes used by the Committee.</p>  |
| <p><b>Opening balances and prior period figures</b><br/>Last year's audit identified a number of errors in opening balances and prior period figures which required amendment.</p>  | <p>Detailed testing on opening balances and prior period comparatives in the draft financial statements.</p>   |

## Identification of specific risks

| Risk area   | Audit response   |
|---|--|
| <p><b>Fixed assets</b></p> <p>Last year's audit identified a number of errors in valuing and accounting for fixed assets, and the related disclosures, which required amendment.</p>  | <p>Detailed testing on the completeness, existence, ownership and valuation of fixed asset balances disclosed in the draft financial statements, including relevant notes.</p> |
| <p><b>Cut off arrangements</b></p> <p>Last year's audit showed that arrangements for identifying year end creditors did not operate effectively. This led to a failure to account for payments in the correct year. This meant creditors and expenditure in the draft financial statements were materially misstated.</p> | <p>Detailed testing on year end payments to ensure that creditors and or expenditure are not materially misstated.</p>   |
| <p><b>Treasury management</b></p> <p>In 2008/09 we identified that there was no written agreement in place between Durham County Council and the Committee setting out the terms of the treasury management agreements.</p>   | <p>We are following this up as part of this year's audit.</p>  |
| <p><b>Annual Governance Statement (AGS)</b></p> <p>The Committee prepared an AGS for the first time in 2008/09, which did not fully comply with requirements.</p>   | <p>We will review the AGS in the draft financial statements to ensure it meets requirements and is consistent with our knowledge of the Committee.</p>                         |
| <p><b>Internal Audit</b></p> <p>Last year's audit identified scope to improve the Committee's internal audit arrangements and coverage.</p>   | <p>We are following this up as part of this year's audit.</p>  |



# Testing strategy

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- 13 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.
- 14 Our testing can be carried out both before and after the draft financial statements have been produced (pre and post statement testing).
- 15 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We will also discuss areas where we may be able to rely on Internal Audit testing on financial systems.

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# Key milestones and deadlines

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- 16 The Committee 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 2.
- 17 We will agree with you a schedule of working papers required to support the entries in the financial statements. Appendix 4 contains a draft schedule.
- 18 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.

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**Table 2 Proposed timetable**

| <b>Task</b>  | <b>Deadline</b>      |
|--|----------------------|
| Control and early substantive testing  | February to May 2010 |
| Receipt of accounts  | 30 June 2010         |
| Forwarding audit working papers to the auditor                                 | 5 July 2010          |
| Start of detailed testing  | 5 July 2010          |
| Progress meetings  | Weekly               |
| Present report to those charged with governance at the Joint Committee meeting | September 2010       |
| Issue opinion  | By 30 September 2010 |

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# The audit team

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19 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  |
|---|---|---|
| Cameron Waddell (CPFA)<br>District Auditor  | <a href="mailto:c-waddell@audit-commission.gov.uk">c-waddell@audit-commission.gov.uk</a><br>or<br>0844 798 1650       | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Clerk and members. |
| Catherine Banks (FCA)<br>Audit Manager      | <a href="mailto:c-banks@audit-commission.gov.uk">c-banks@audit-commission.gov.uk</a><br>or<br>0191 383 6410           | Manages and coordinates the different elements of the audit work. Key point of contact for officers.  |
| Mark Outterside (CPFA)<br>Audit Team Leader | <a href="mailto:m-outterside@audit-commission.gov.uk">m-outterside@audit-commission.gov.uk</a><br>or<br>0844 798 1666 | Lead fieldwork and audit team on opinion work. Key points of contact for and liaison with Finance officers.   |
| Alan Coxon (ACA)<br>Contractor              | <a href="mailto:a-coxon@audit-commission.gov.uk">a-coxon@audit-commission.gov.uk</a><br>or<br>0844 798 1697           | Carry out detailed work on the financial statements.  |

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## Independence and objectivity

- 20 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.
- 21 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.

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## Meetings

- 22 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.

## The audit team

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### Quality of service

- 23** 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 North East Head of Operations, Dave Allsop: [d-allsop@audit-commission.gov.uk](mailto:d-allsop@audit-commission.gov.uk) .
- 24** 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

- 25** Reports will be discussed and agreed with the appropriate officers before being issued to the Committee.
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**Table 4**      **Planned outputs**

| <b>Planned output</b>  | <b>Indicative date</b> |
|--|------------------------|
| Opinion audit plan   | June 2010              |
| Annual governance report                                       | September 2010         |
| Auditor's report giving an opinion on the financial statements | September 2010         |
| Final accounts report  | October 2010           |

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# Appendix 1 – Basis for fee

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- 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 Committee with reference to:
  - our cumulative knowledge of the Committee;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with officers; and
  - liaison with Internal Audit.

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## Assumptions

- 3 In setting the fee, I have assumed that:
  - the level of risk in relation to the audit of the financial statements is lower than that identified for 2008/09 given this is the second year the Committee has produced SORP compliant financial statements;
  - 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 5 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

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- 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 Joint Committee. We will communicate directly with the Joint Committee 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.

## Appendix 2 – Independence and objectivity

- 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 meetings on audit issues is as follows.

**Table 5 Proposed meetings with officers**

| Joint Committee officers  | Audit Commission staff   | Timing                               | Purpose  |
|---|--------------------------|--------------------------------------|--|
| Head of Finance/ HR and Business Support - Neighbourhood Services | AM and Team Leader (TL)  | Quarterly                            | General update plus: <ul style="list-style-type: none"> <li>• March - fee letter</li> <li>• June - opinion audit plan</li> <li>• July - accounts progress</li> <li>• September - annual governance report</li> </ul> |
| Principal Accountant  | AM and Team Leader (TL)  | Quarterly<br>Weekly in July          | Update on audit issues   |
| Joint Committee   | AM and TL as appropriate | As determined by the Joint Committee | Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan</li> <li>• Annual governance report</li> <li>• Other issues as appropriate</li> </ul>   |

## 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.



# Appendix 4 – Schedule of working papers

| Description  | Responsible officer             | Telephone number            | WP schedule |
|--|---------------------------------|-----------------------------|-------------|
| Financial Statements                                     | Jo McMahon                      | 0191<br>3833446             | Schedule 1  |
| Income and Expenditure Account                           | Jo McMahon                      | 0191<br>3833446             | Schedule 2  |
| Statement of Movement on General Fund Balance            | Jo McMahon                      | 0191<br>3833446             | Schedule 3  |
| Statement of Total Recognised Gains and Losses (STRGL)   | Jo McMahon                      | 0191<br>3833446             | Schedule 4  |
| Tangible Fixed Assets                                    | Jo McMahon                      | 0191<br>3833446             | Schedule 5  |
| Investments  | Jo McMahon/<br>Tracy<br>McKeown | 0191<br>3833446/<br>3834380 | Schedule 6  |
| Debtors and payments in advance                          | Tracy<br>McKeown                | 0191<br>3834380             | Schedule 7  |
| Cash and bank  | Tracy<br>McKeown                | 0191<br>3834380             | Schedule 8  |
| Creditors and receipts in advance                        | Tracy<br>McKeown                | 0191<br>3834380             | Schedule 9  |
| Funds, balances and reserves                             | Jo McMahon                      | 0191<br>3833446             | Schedule 10 |
| Contingent liabilities                                   | Jo McMahon                      | 0191<br>3833446             | Schedule 11 |
| Post balance sheet events                                | Jo McMahon                      | 0191<br>3833446             | Schedule 12 |
| Cash Flow Statement                                      | Jo McMahon                      | 0191<br>3833446             | Schedule 13 |
| Notes to the financial statements not included elsewhere | Jo McMahon                      | 0191<br>3833446             | Schedule 14 |
| Annual Governance Statement (AGS)                        | Jo McMahon                      | 0191<br>3833446             | Schedule 15 |

**Appendix 4 – Schedule of working papers**