

Audit Opinion Plan

Cleveland Police Authority
Audit 2009/10

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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.

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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.

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Fee for the audit of financial statements

- 5 The fee for the audit is £85,780, as indicated in my letter of 3 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;
 - good quality working papers will be supplied to support the financial statements
- 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 Treasurer 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 the 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 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**
Specific opinion risks identified

Risk area	Audit response
<p>PFI schemes</p> <p>The introduction of IFRIC12 requires that lease type arrangements, including PFI schemes, must be considered for revised accounting treatment.</p>	<p><i>Assessment of Authority's arrangements for reviewing lease arrangements against IFRIC12 requirements.</i></p> <p><i>Substantive testing of accounting entries relating to PFI schemes under IFRIC12.</i></p>
<p>Air Support Unit</p> <p>The air support unit consortium with Durham and Northumbria forces was disbanded in 2008-09. Accounting for balances on termination of previous arrangement may not be correctly accounted for.</p>	<p><i>Agreement to supporting evidence.</i></p>
<p>New format to income and expenditure account</p> <p>The income and expenditure account in the 2009-10 financial statements requires an analysis of police service costs over nine separate headings (as opposed to only one in prior years).</p> <p>There is a risk that the Authority fails to correctly classify the expenditure and/or does not accurately restate the 2008/09 comparative figures.</p>	<p><i>We will</i></p> <ul style="list-style-type: none"> ● <i>review the Authority's arrangements to classify its income and expenditure</i> ● <i>substantively test individual heads of income and expenditure.</i>
<p>Officer remuneration disclosure</p> <p>Additional disclosures are required to be included in this year's financial statements.</p>	<p>Confirmation that disclosures meet requirements of Statement of Recommended Accounting Practice.</p> <p>Test disclosures to supporting records.</p>

Risk area	Audit response
Changes in accounting for council tax Risk that the changes introduced by the SORP will not be correctly reflected throughout the financial statements.	Ensure correct accounting treatment and disclosure is applied by reviewing evidence to supporting evidence.

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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.
- 16 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
 - Auditing the bank reconciliation.
 - Obtaining direct confirmation of loans and investments
- 17 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

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Key milestones and deadlines

- 18 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 2.
- 19 We have already agreed with you a schedule of working papers required to support the entries in the financial statements.
- 20 My staff will meet with the key finance staff regularly through the audit of the financial statements. Key officer / audit contacts and liaison arrangements between them are detailed in the agreed Opinion Audit Protocol. However the frequency of meetings may be flexed according to need and depending upon the number and complexity of issues arising.

Table 2 Proposed timetable

Task	Deadline
Control and early substantive testing	May 2010
Receipt of accounts	26 May 2010
Forwarding audit working papers to the auditor	7 June 2010
Start of detailed testing	7 June 2010
Receipt of Whole of Government accounts	August 2010
Progress meetings	Weekly
Present report to those charged with governance (Police Authority Executive)	12 August 2010
Issue opinion	By 31 August 2010

The audit team

21 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
Lynne Snowball District Auditor	l-snowball@audit-commission.gov.uk 0844 798 1670	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Paul Heppell Audit Manager	p-heppell@audit-commission.gov.uk 0844 798 1657	Manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.
Sandra Swan Principal Auditor	s-swan@audit-commission.gov.uk 0844 798 4710	Responsible for leading the audit staff and carrying out the audit work, and liaises closely with the key finance staff.

Independence and objectivity

- 22 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.
- 23 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

- 24 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Quality of service

- 25** 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, Yorkshire and Humberside Head of Operations, Dave Allsop.
- 26** 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.

Planned outputs

- 27** Reports will be discussed and agreed with the appropriate officers before being issued to the Audit & Internal Control Panel or Police Authority Executive respectively (as the body charged with governance).

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	June 2010
Annual governance report	August 2010
Auditor's report giving an opinion on the financial statements	August 2010
Final accounts memorandum	August 2010

Lynne Snowball
 District Auditor
 June 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 / Force 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 30 June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – 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 Police Authority Executive.
- 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.

Sustainability

- 8 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.