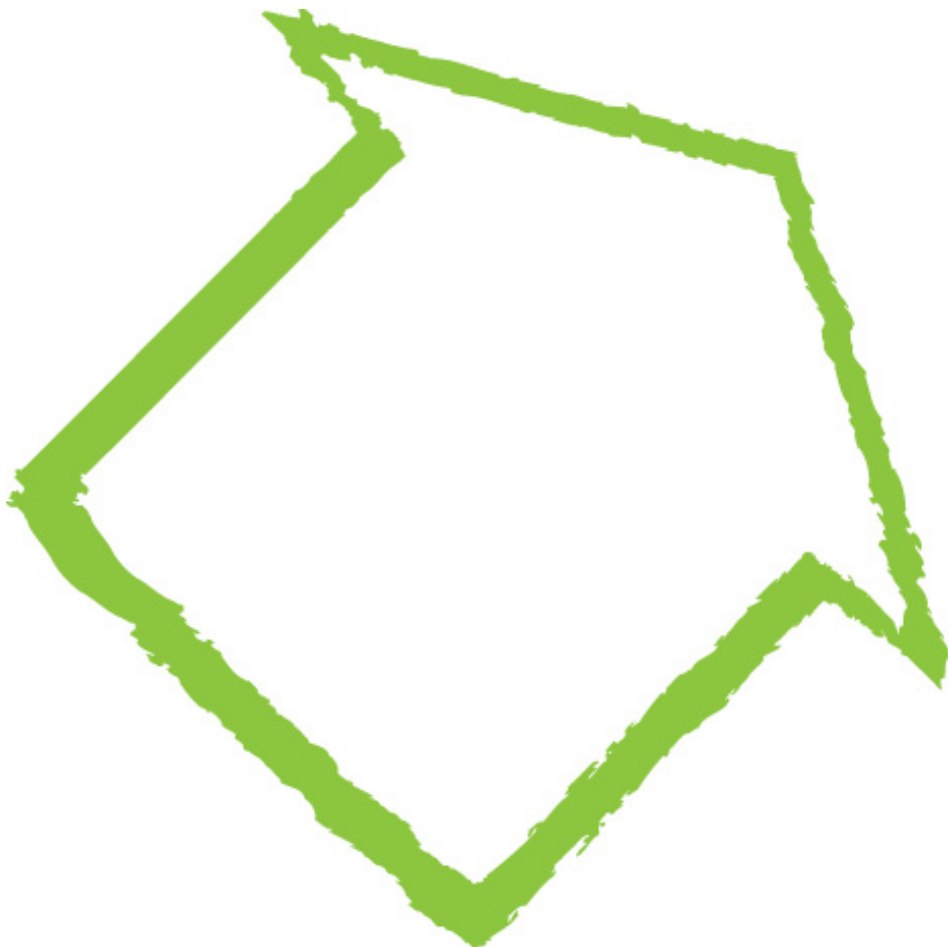


# Audit Opinion Plan

Tonbridge & Malling Borough Council

Audit 2009/10

June 2010



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Introduction

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- 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

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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 £96,600, as indicated in our initial planning letter of 21 April 2009. Of this £66,850 relates to the audit of the financial statements.
- 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. If during our post-statements audit we conclude that the level of risk has increased then we 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
- 7 Further information on the basis for the fee is set out in Appendix 1.

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# Auditor's report on the financial statements

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- 8 We will carry out the audit of the financial statements in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 9 We are required to issue an audit report giving our opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

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## Identifying opinion audit risks

- 10 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
  - identifying the business risks facing the 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 risks

- 11 We have considered the additional risks that are relevant to our 2009/10 opinion audit. These are set out at Table 1

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

| Risk area  | Audit response  |
|--|---|
| <p>The Council has a deposit of £1m with Landsbanki, which was taken into the ownership of the Icelandic government in October 2008. The valuation of this deposit currently reflects an impairment calculated in accordance with CIPFA guidance. We will again need to consider the valuation of this investment in the 2009/10 accounts.</p> | <p>We will review the valuation of the Council's investment and any accompanying disclosure in the year end accounts.</p>   |
| <p>The Council's accounts are prepared using the 'Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009' (SORP). There have been a number of changes in this year's SORP guidance relevant to preparing the 2009/10 accounts.</p>   | <p>Our liaison with officers suggests there is an awareness of the changes in the SORP guidance. However, we will review relevant issues as part of our work on the financial statements.</p> |
| <p>The Council will again need to consider the impact of current economic conditions on the valuation of its fixed assets.</p>   | <p>We will review the valuation of the Council's assets as part of our work on the year end accounts.</p>   |

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# Testing strategy

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- 12 We will produce a testing strategy to address the risks identified above. Our strategy will involve the testing of key controls and/or substantive tests of transaction streams and material account balances at year end.
- 13 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 14 Where possible we seek to complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where it may be possible to complete early substantive testing.

- Review of accounting policies.
- Fixed assets existence and ownership.

If other potential early testing is identified, this will be discussed with officers.

- 15 Where possible we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10 we have sought to place reliance on internal audit testing of key controls in the following systems:
- General ledger;
  - Sales ledger;
  - Purchase ledger;
  - Council tax; and
  - Payroll.
- 16 We have liaised with internal audit on this work as part of our pre-statements audit. We have now reviewed the relevant completed work and have concluded that we can place reliance on it for our opinion purposes.



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# Key milestones and deadlines

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- 17 The Council is required to prepare its financial statements by 30 June 2010. The Director of Finance is currently planning to provide us with a complete draft of the 2009/10 accounts by 15 June 2010. We are required to complete our audit and issue our opinion by 30 September. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 18 We have agreed a schedule of working paper requirements to support the year end accounts with the Council's lead officer (Principal Accountant).
- 19 We will meet regularly with the Council's lead officer during our post-statements work to discuss relevant issues and ensure that any audit queries are resolved promptly.

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**Table 2**      **Proposed timetable**

| <b>Task</b>  | <b>Target date/Deadline</b> |
|--|-----------------------------|
| Completion of controls and any early substantive testing             | 31 May 2010                 |
| Receipt of draft accounts  | 15 June 2010                |
| Receipt of supporting working papers                                 | 22 June 2010                |
| Start of post-statements testing                                     | 28 June 2010                |
| Progress meetings  | Weekly or by agreement      |
| Report to those charged with governance (General Purposes Committee) | 6 September 2010            |
| Issue opinion  | <i>30 September 2010</i>    |

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# The audit team

20 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  |
|----------------------------------|--|---|
| Andy Mack<br>District Auditor    | <a href="mailto:a-mack@audit-commission.gov.uk">a-mack@audit-commission.gov.uk</a><br>0844 798 2846        | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive. |
| Trevor Greenlee<br>Audit Manager | <a href="mailto:t-greenlee@audit-commission.gov.uk">t-greenlee@audit-commission.gov.uk</a><br>07909 534624 | Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.   |
| Hannah Lill<br>Team Leader       | <a href="mailto:h-lill@audit-commission.gov.uk">h-lill@audit-commission.gov.uk</a><br>07896 684762         | Responsible for the day to day delivery of the audit. Key point of contact for finance staff.   |

## Independence and objectivity

- 21 We are 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.
- 22 We 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

- 23 The audit team meets with key officers throughout the year to ensure we are aware of issues that may affect our audit risk assessment. Details of these meetings are given at Appendix 3.

## The audit team

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### Quality of service

- 24 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 the District Auditor in the first instance. Alternatively, you may wish to contact the South East Head of Operations, Neil Childs at [n-childs@audit-commission.gov.uk](mailto:n-childs@audit-commission.gov.uk)
- 25 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

- 26 Our reports will be discussed and agreed with officers before being issued to those charged with governance (the General Purposes Committee).
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**Table 4**      **Planned outputs**

| <b>Planned output</b>                         | <b>Indicative date</b> |
|---|------------------------|
| Audit opinion plan                            | May 2010               |
| Annual governance report                      | September 2010         |
| Auditor's opinion on the financial statements | September 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 Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council 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 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;
  - Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by 22/06/10;
  - 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 General Purposes Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
  - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
  - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
  - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 3 – Working together

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## Meetings

- 1 We maintain knowledge of issues relevant to our audit risk assessment through regular liaison with key officers including the:
  - Chief Executive;
  - Director of Finance;
  - Chief Internal Auditor; and
  - Lead officer on accounts (Principal Accountant).
- 2 We also seek to attend all Audit Committee meetings during the year, and present our Annual Governance Report to the General Purposes Committee.

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## 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.

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, 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.

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