

# Appendix 2

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# Audit Opinion

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# Plan

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London Borough of Lewisham

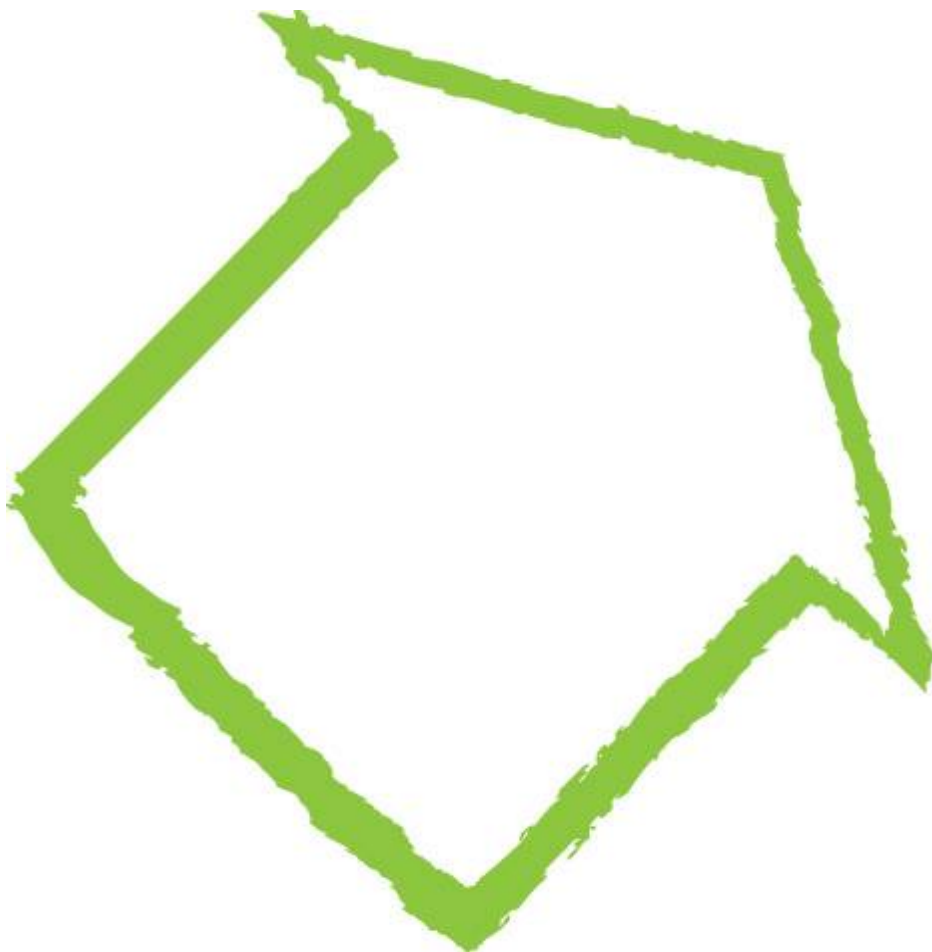
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Audit 2009/10

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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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# Audit Opinion Plan

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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 indicative fee for the audit of the financial statements is £333,900, within an overall fee for the audit as a whole of £447,356, as indicated in my letter of 27 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, except for the specific additional risks that I have set out in Table 1 on page 5; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review by the end of March 2010.
- 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 Executive Director of Resources and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

- 8 Further information on the basis for the fee is set out in Appendix 1.

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**Specific actions London Borough of Lewisham 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 the Council could take and to provide ongoing audit support.

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**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 Council as at 31 March 2010.

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**Identifying opinion audit risks**

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

- 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><b>IFRIC 12 - accounting for service concession arrangements.</b></p> <p>The accounting requirements for Private Finance Initiative (PFI) schemes and similar contracts are no longer based on UK accounting standards but on International Financial Reporting Standards (IFRS), specifically IFRIC 12 Service Concession Arrangements. It is expected that under IFRIC 12, PFI schemes and similar contracts will be required to be recognised on-balance sheet.</p> <p>The Council may account for the balances relating to the PFI schemes incorrectly.</p>	<p>We will review the proposed accounting treatment for the Council's PFI schemes to ensure compliance with IFRIC 12.</p>
<p><b>Lewisham Homes pension indemnity</b></p> <p>In 2008/09, the Council's and Lewisham Homes' differing interpretations of the Council's letter of indemnity in respect of pension costs led to a £2m imbalance in the Council's group accounts.</p>	<p>We have been in discussion with the Council to ensure the differing interpretations of the indemnity are clarified before the draft accounts are prepared.</p>
<p><b>Accounting for Large Scale Voluntary Transfers (LSVTs)</b></p> <p>In the 2008/09 accounts, £57m of impairments arising from LSVTs were presented incorrectly as losses on disposal. In addition the LSVT overhanging debt was offset against the loss on disposal of assets, rather than recognised as income. The accounting for LSVTs continues to be a risk area.</p>	<p>We will review the accounting treatment relating to any new LSVTs in 2009/10. We will ensure any disclosures relating to LSVTs are in accordance with the Statement of Recommended Practice (SoRP).</p>

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# Testing strategy

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- 14 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 15 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 16 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
  - Review of accounting policies.
  - Bank reconciliations.
  - Investments.
  - Year-end feeder system reconciliations.
  - Physical verification and confirmation of ownership of fixed assets.

Where other early testing is identified as being possible, we will discuss this with officers.

- 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

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- 18 The Council 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 producing and auditing the financial statements are shown in Table 2.
- 19 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 20 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	April 2010
Receipt of accounts	30 June 2010
Forwarding audit working papers to the auditor	2 July 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit Panel	September 2010
Issue opinion	By 30 September 2010

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# 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
Susan Exton District Auditor	<a href="mailto:s-exton@audit-commission.gov.uk">s-exton@audit-commission.gov.uk</a> 0844 798 2506	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Geoffrey Banister Audit Manager	<a href="mailto:g-banister@audit-commission.gov.uk">g-banister@audit-commission.gov.uk</a> 0844 798 2434	Manages and coordinates the different elements of the audit work. Key point of contact for the Executive Director of Resources.
Jayne Rhodes Support Audit Manager	<a href="mailto:j-rhodes@audit-commission.gov.uk">j-rhodes@audit-commission.gov.uk</a> 0844 798 2673	Reports to the Audit Manager and controls the day-to-day audit.
Alexandrina Lazar Team Leader	<a href="mailto:a-lazar@audit-commission.gov.uk">a-lazar@audit-commission.gov.uk</a> 0844 798 2011	Liaises with the Group Finance Manager and his team on a day-to-day basis.

## 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. Our proposals are set out in Appendix 3.



## The audit team

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### 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 London Region Head of Operations, Les Kidner [l-kidner@audit-commission.gov.uk](mailto:l-kidner@audit-commission.gov.uk).
- 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.
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### Planned outputs

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

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	April 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	September 2010
Final accounts memorandum	November 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 other than those issues identified at Table 1 above;
  - you will inform us of significant developments that impact 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 the date agreed with the audit team;
  - 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 Audit Panel. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

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

# Appendix 3 – Working together

## Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

**Table 5 Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Executive Director of Resources	District Auditor and Audit Manager	Quarterly	General update plus: April - audit fee letter January - Annual Audit Letter
Head of Finance	Audit Manager and Team Leader	March, July, September	General update plus: September - Annual Governance Report
Chief Accountant	Audit Manager and Team Leader	Monthly and more frequently during accounts audit.	Update on audit issues
Audit Panel	District Auditor and Audit Manager	As determined by the Audit Panel	Formal reporting of: Audit fee letter Annual Governance Report Annual Audit Letter Other issues as appropriate

## Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
  - reducing paper flow by encouraging you to submit documentation and working papers electronically;
  - use of video and telephone conferencing for meetings as appropriate; and
  - reducing travel.

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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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## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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