Financial Statements Plan

Exeter City Council

For the year ended 31 March 2010

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To the Scrutiny Resources Committee of Exeter City Council

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The purpose of this plan is to highlight the key elements of the audit work to be undertaken on the financial statements of Exeter City Council for the year ended 31 March 2010. This report has been written for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the expectations of the Audit Commission.

We set out in this report our statutory responsibilities under the Code of Audit Practice. Most significant is our responsibility to provide an opinion on the Council's financial statements, including the Council's Annual Governance Statement, which should be issued by 30 September 2010.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention.

We look forward to continue working with the Council over the next year.

Grant Thornton UK LLP

Contents

1 Our audit approach

1.1 Introduction

This plan sets out the work to be undertaken for the audit of the 2009-10 financial statements. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- our Code of Audit Practice responsibilities;
- current national risks relevant to the Council's local circumstances; and
- our assessment of the Council's local risks and improvement priorities, based on outcomes of our recent audit of its 2008-09 financial statements.

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice (SORP).

We are required to audit the financial statements and to give an opinion as to:

- whether they present fairly the financial position of the Council and its Group and its expenditure and income for the period in question;
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

From 2010-11, the Council is required to prepare its Statement of Accounts under International Financial Reporting Standards (IFRS) based on an IFRS Code of Practice on Local Authority Accounting prepared by CIPFA. 2009-10 will be an important year in this process as the Council will be required to restate its balance sheet as at 1 April 2009 and its 2009-10 financial statements to provide the comparatives for its first IFRS accounts.

1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff.

Our audit strategy comprises:

- updating our understanding of the Council through discussions with management and Internal Audit;

- reviewing the Council's Internal Audit service, to determine whether it complies with the requirements of CIPFA's Code of Practice on Internal Audit and the extent to which we can take assurance from its work;
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements;
- reviewing the adequacy of the Council's general controls in respect of its information technology (IT);
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures;
- testing the operating effectiveness of the internal financial controls, where we consider it appropriate to rely on controls;
- reviewing the adequacy of material disclosures in the financial statements;
- maintaining regular contact with officers to discuss emerging issues and any new accounting or auditing requirements;
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams; and
- ensuring that the balances reported in the Council's Whole of Government Accounts (WGA) consolidation pack are consistent with the financial statements.

1.3 Identified high risk areas

In summary, our audit approach, in respect of high risk areas will be as follows:

- we will work with the Council to advise it on accounting developments that will impact on the 2009-10 financial statements, in particular relating to the 2009 SORP and International Financial Reporting Standards (IFRS); and
- we will discuss with the Council the arrangements it has put in place to address any recommendations arising from the outcomes of our 2008-09 audit.

These are detailed further in section 2 below.

1.4 Materiality

We consider an item to be material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the transactions, assets and liabilities of the Council.

Materiality is set at the planning stage of the audit to ensure that an appropriate level of work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality (approx. £30,000) will be recorded on a schedule of potential misstatements. These are assessed both individually and in aggregate, discussed with you and, if you decide not to adjust the financial statements for them, we will request that you confirm in your letter of representation to us your view that they are not material to the financial statements.

Even if an item or balance is of low value, below the level of materiality, it might be judged material because of its nature, for example any item that affects the disclosure of individuals' emoluments. Equally, an item of higher value may be judged not material if it does not distort the fairness of the financial statements.

1.5 Internal controls

We are required to evaluate the design of the Council's internal controls over risks, which could lead to material misstatement in the financial statements and determine whether they have been implemented effectively. Our emphasis will be on identifying and obtaining an understanding of control activities that address the areas where we consider material misstatements are more likely to occur.

We plan to carry out this work prior to the financial year end, i.e. undertake an interim audit visit in advance of when we carry out our audit of the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our audit, we identify any control weaknesses, we will report these to the Council.

In consequence, our work cannot necessarily be relied upon to disclose deficiencies or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

1.6 Use of the work of internal audit

We review Internal Audit's overall arrangements against the CIPFA Standards for Internal Audit to ensure that they are adequate to produce robust and reliable work. Where the arrangements are considered to be adequate, we can gain assurance from the overall work undertaken by Internal Audit and can conclude that, the service in itself, is contributing positively to the internal control environment and overall governance arrangements within the Council.

In accordance with professional standards and our audit approach, a comprehensive review of the Internal Audit service is only undertaken every three years, unless there is an indication that a more frequent review is required.

We completed a full review of the Council's Internal Audit service in 2007-08. For 2009-10, our work will involve reviewing the Council's progress in implementing the recommendations raised from our full assessment and ensuring that there have been no significant changes to the internal audit service.

In addition, where Internal Audit has completed specific work and detailed testing on an area that we have determined as representing an accounts risk to the Council's financial statements, we will review this work in detail, to establish whether we can place reliance upon the testing undertaken and the conclusions reached. Where we seek to place reliance on specific areas, we undertake re-performance work to ensure that we would have drawn the same conclusions from the testing undertaken and resultant findings. This approach ensures that we maximise the assurance gained from Internal Audit's work in addressing the risk factors we have identified from our overall review of the financial statements and minimises the duplication of audit work.

1.7 Audit of IT systems

Our audit approach requires a review of the Council's internal controls in the IT environment, as the Council uses computer systems for accounting applications that process a large number of transactions.

As in previous years, we will involve our information specialists to undertake this element of the audit.

2 Key audit issues and financial reporting matters

As we have now completed our work on the 2008-09 accounts, we have set out below our detailed risk assessment for our audit of the 2009-10 accounts. This risk assessment, summarised in the table below, reflects both national developments and issues as well as local risks that have emerged during the course of our 2008-09 audit. We will keep our risk assessment under review, and if necessary, amend this plan.

We will report to you in our annual report to those charged with governance (ISA260) our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit. We plan to present our ISA260 report to the Council's Final Accounts Committee following the conclusion of our financial statements audit in September 2010.

2.1 National and other financial reporting matters

Issue	How we plan to respond
SORP 2009 - Accounting for National Non Domestic Rates and Council Tax The 2009 SORP has introduced a number of changes in the accounting for national non domestic rates and council tax in the Council's financial statements. It now requires local authorities to account for transactions on an agency basis,. i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund. There is a risk that the Council does not correctly account for these changes.	We will discuss and advise the Council on the new accounting requirements and provide feedback on any changes in disclosures that are needed to comply with the SORP.
International Financial Reporting Standards CIPFA has confirmed that local authorities will be required to follow International Financial Reporting Standards from 1 April 2010. Financial data for 2009-10 will require restatement in order to provide comparative data in the financial statements. There is a risk that the Council has not put adequate arrangements in place to manage this transition and collate the required information to prepare the restatement entries.	We will work with the Council's finance team to ensure that arrangements are in place to implement its IFRS transition plan and we will monitor progress against this plan throughout the year. We will provide advice and support to the Council on the required accounting treatments under IFRS, where this will not compromise our independence, through sharing our experiences of IFRS transition from other public sector bodies and the commercial sector.

2.2 Key local audit matters

Issue	How we plan to respond
Group Accounts The Council is a 100% shareholder in Exeter Canal and Quay Trust Limited (ECQT) and, as such, is required to produce group accounts. In order to ensure that the group accounts reflect the final position of subsidiaries, they should be prepared and approved, only once all subsidiary accounts have been audited and signed off by their independent auditor. Our audit of the 2008-09 financial statements identified that the Board of ECQT were not due to approve the accounts until mid November 2009, although the external audit of the accounts had been completed and had not identified any significant issues. This exposed the Council to risk that any subsequent events, impacting upon the subsidiary prior to the approval of the accounts, would not be reflected in the Group's reported position. In addition, the introduction of IFRS requires the Council to reassess its interests in other organisations to determine whether it has the ability to control, regardless of whether control is exercised. The Council needs to ensure that the ongoing impact on its group accounts is formally assessed and that processes are in place to prepare and approve the accounts for any additional interests to be accounted for under IFRS. There is a risk that the Council does not put adequate arrangements in place to deliver these requirements effectively.	We will discuss with the Council its timetable for the preparation, audit and approval of the Council's subsidiary accounts at our interim audit to ensure that this allows sufficient time for audit consideration enabling them to meet statutory requirements. We will continue our discussions with the Council on its IFRS preparations and review its process for identifying all significant interests in other organisations and whether these have been appropriately assessed under the IFRS requirements.
Icelandic Banks The Council was affected by the collapse of the Icelandic Banks. It held investments of £3 million with Landsbanki on a short term deposit that was due to mature on 3 November 2008 and £2 million deposit with Glitnir Bank due to mature in December 2008. CIPFA provided advice on the accounting arrangements for authorities with deposits in these banks and released further information regarding the level of impairment to be recognised in the Council's accounts in 2008-09, reflecting the latest status report from the banks' administrators. There is a risk that any changes in this position during 2009-10 is not appropriately accounted for.	We will monitor any future progress reports from the administrators and ensure that the Council responds to any changes in amounts recoverable from the banks. We will review any accounting entries prepared by the Council as part of our final accounts audit to ensure that these continue to reflect the latest information available.

3 Administration

3.1 Engagement team

Our senior team for the audit is unchanged from last year. We have introduced a new in charge auditor, Chris Roach, to support the team in the delivery of the audit of the financial statements. Julie Fuller, who is known to the Council, will continue to support the team in the work required under Use of Resources. Contact details for them are as follows:

Name	Role	Contact details
Barrie Morris	Engagement lead	T: 0117 305 7708 E: barrie.morris@gtuk.com
Julie Masci	Audit manager	T: 0117 305 7696 E: julie.masci@gtuk.com
Chris Roach	In charge auditor	T: 0117 305 7720 E: chris.roach@gtuk.com
Julie Fuller	In charge auditor	T: 0117 305 7657 E: julie.fuller@gtuk.com

3.2 Fees

We proposed our audit fee for 2009-10 in a separate fee letter to the Council dated 2 March 2009, which was agreed with management. This was ratified by the Council at its Resources Scrutiny Committee on 25 March 2009. The agreed fee in relation to the audit of the financial statements is £69,500.

In setting the fee, we have assumed that:

- the Council will inform us of significant developments impacting on our audit;
- internal audit continues to meet the appropriate professional standards;
- internal audit undertakes sufficient appropriate work on all systems that provide material figures in the financial statements so that we can take necessary assurances from their work for the purposes of our audit;
- 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; and
- prompt responses will be provided to draft reports.

3.3 Information required

We will issue a client arrangements letter to the Council setting out the specific information and working papers requirements for our audit. We will issue this to the Council by 31 March 2010.

3.4 Specialist support

The core audit team will be supported by other specialist and support staff, as necessary, during the course of the audit, including:

- IT audit specialists;
- governance and risk assurance specialists; and
- technical accounting specialists.

3.5 Independence

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity as summarised at Appendix A.

3.6 Quality assurance

We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact Barrie Morris as engagement lead, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (Southern), Bill Sanderson, or Grant Thornton's National Head of Government Audit, Sarah Howard.

A The Audit Commission's requirements in respect of independence and objectivity

Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement lead and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.

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 Resources Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Executive matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as non Code work in the plan.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;

- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;

- auditors are expected to comply with the Commission's policy for both the Engagement Lead and the Manager to be changed on each audit at least once every five years with effect from 1 April 2003;

- audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and

- the Commission must be notified of any change of manager one month of making the change. Where a new Engagement Lead or Manager has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.