Audit Committee – 13 April 2010

External Audit Approach Memorandum – Final Accounts 2009/10

1. Summary of report

1.1 This report details the audit approach memorandum submitted by Grant Thornton, the council's external auditors, highlighting the key elements of the audit work to be undertaken on the 2009/10 statement of accounts. The report also outlines the arrangements the council has in place to manage these key issues.

2. Recommendations

2.1 Audit Committee is requested to note the Grant Thornton audit approach memorandum (AAM) and the measures being taken to ensure the council meets its obligations.

James Walsh	Rory Borealis
Chief Finance Officer	Executive Director
29 March 2010	29 March 2010

3. Governance

3.1 Each year the council's external auditors, Grant Thornton, are required to report to the Audit Committee the key elements of audit work they will be undertaking on the council's 2009/10 statement of accounts. This is in line with International Standard on Auditing (ISA) 260 and their statutory responsibilities under the Code of Audit Practice.

3.2 The external audit approach memorandum highlights 5 key national and 2 key local audit matters which Grant Thornton have identified in their risk assessment as key areas of focus. This is based on national developments and the results of Walsall's 2008/09 audit. They have also identified the requirements for International Financial Reporting Standards (IFRS) being introduced in 2010/11 as an area of risk.

3.3 The key national audit matters are:

a) Introduction of new Private Finance Initiative (PFI) accounting requirements
b) Asset valuations
c) Single status agreement
d) Changes in accounting within the Statement of Recommended Practice (SORP) 2009, and
e) Impact of the current economic climate

3.4 The key local audit matters are:

a) Valuation of Birmingham International Airport
b) Clawback of grant awarded.

3.5 Further detail on the key issues is provided below, along with the councils plans for managing these. Grant Thornton, in their presentation of the report at Audit Committee, will advise on their audit approach for each one.

3.6 Introduction of new Private Finance Initiative (PFI) accounting requirements

SORP 2009 has introduced new accounting requirements for PFI schemes, reflecting IFRS requirements. These new requirements cover all PFI and Public Private Partnership (PPP) arrangements. Walsall currently has 2 PFI and 1 PPP scheme. To ensure these new requirements are implemented within Walsall's statement of accounts KPMG have been engaged as advisors on this implementation. This is to provide additional expertise in a specialised area, to support the in-house financial reporting team. The council has an adequately resourced plan to manage the implementation of IFRS.

3.7 Asset valuations

Given the current economic climate Grant Thornton have raised the potential risk that the valuations for assets currently on the balance sheet may not be reflective of their current value. As part of the 2008/09 process the council revalued approximately 80% of its total property portfolio. The intention this year is to revalue those properties not revalued in 2008/09 and to also carry out a desktop impairment review of the other assets to determine whether there is any indication of a material change in value. This has been built into the timetable for financial reporting. Following this, an annual rolling programme of valuations will be undertaken.

3.8 Single status agreement

The council is currently working towards implementation of a new pay and grading structure, in addition to managing a large number of equal pay claims. Clearly given the potential financial impact, Grant Thornton has included this key issue within their audit plan. A programme board exists and a project team is in place to manage these issues. The council will keep Grant Thornton abreast of progress and discuss the financial treatment and entries in the account as they arise.

3.9 Accounting changes within SORP 2009 and legislation

In addition to the accounting change for PFI's, SORP 2009 and other legislation has also amended the accounting requirements for

- Council tax and NNDR
- Reporting of senior officer remunerations, and
- Reporting of officers whose salary is over £50,000

To meet the council tax and NNDR requirements, which require that the council only discloses its own share of debtors and creditors of the collection fund, changes to procedures and working papers have been adopted and entries for the prior years calculated.

For the senior officers reporting requirements the new legislation has been reviewed and appropriate posts are being identified. Legal advice is being sought to ensure the council are including all appropriate positions.

The reporting of salaries over £50,000 has changed only to the extent that they are now required to be reported in bands of £5k compared to previous bands of £10k. Remuneration of senior officers is also required to be reported separately. Again work has been ongoing to ensure that these changes will be reflected within the accounts.

3.10 The economic climate

Given the recession within the United Kingdom in 2009/10, Grant Thornton has identified this as a general risk area. The council has a well established medium term financial plan and strategy that is updated to take account of changes in economic conditions. In addition the statement of accounts will this year provide a brief commentary of the changes in the economic climate.

Concerns about fixed assets are being addressed as shown in paragraph 3.7. Improvements to debt recoverability work have been ongoing this year to ensure an appropriate level of provision for bad debts is made, with a review of our calculation processes being undertaken

3.11 Birmingham International Airport

This issue is concerning the measurement of our investment in the airport. The affairs of the seven West Midlands councils who are part owners of this airport are dealt with by Birmingham City Council. At present no new valuation has been undertaken due to the large range and variation in valuations obtained. Birmingham are leading on discussions with their own auditors about the issue of valuations. It is understood that Birmingham's external auditors will then discuss this issue with the auditors of the other 6 authorities and an approach on the issue will be agreed.

3.12 Clawback of grant awarded

Following closure of the European Funding Objective 2 Action Plan and re-submission of the final claim in September 2009, and resulting clawback issues, Grant Thornton were requested to undertake a review of the individual projects and the factors that led to the de-commitment and clawback. They have now concluded their audit and a report was presented to Audit Committee at a special meeting on 24th March. The outcome of the report and meeting was that an action plan to address the report's recommendations be brought to a future meeting of Audit Committee for consideration and approval. Finance will incorporate any recommendations that pertain to the financial statements as part of the 2009/10 Statement of Accounts.

3.13 Walsall has reviewed its procedures for grant administration and issued a revised grants manual. A comprehensive grants register is being developed and a partnership risk management strategy being put into place. In addition the accountable body policy has being strengthened and is due to be reported to Cabinet for approval in April. A grants workshop is also being timetabled, with Grant Thornton support, which is intended to be an annual event to include all accountable grant officers. The findings of the European funding review will be factored into the final documents and processes.

3.14 IFRS

Grant Thornton has highlighted a potential risk that councils may not be fully prepared for implementing the new IFRS requirement. A briefing on IFRS is included on tonight's agenda on the changes required to the accounts as a result of IFRS and the council's plans for managing this. A project team and plan has been put in place to manage the process and ensure successful conversion to this new accounting regime. Grant Thornton will review and report on these arrangements as part of their audit of the accounts.

4. Resource and legal considerations

4.1 Interpretation of new legislation is being reviewed to ensure that the council meets its legal obligations outlined within the Accounts and Audit (Amendment No. 2) (England) Regulations 2009 concerning the reporting of senior officers' remuneration.

5. Performance and risk management issues

5.1 Staff and councillors will receive briefings and training as appropriate on the new requirements highlighted, such as for IFRS. This is to ensure these staff have the correct skill base to ensure the council meets its obligations within the set timescales.

5.2 Risk management is embedded in the final accounts process. This informs the final accounts timetable and training requirements. There is also an IFRS timetable in place to assist in managing the risks associated with the conversion to this new accounting regime.

6. Equality implications

6.1 None directly associated with this report.

7. Consultation

7.1 The report is prepared in consultation with finance and senior officers across the council.

8. Background papers

8.1 Grant Thornton Audit Approach Memorandum 2009/10.

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Audit Approach Memorandum

Walsall Metropolitan Borough Council

For the year ended 31 March 2010

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To the Audit Committee of Walsall Metropolitan Borough Council

The purpose of this plan is to highlight the key elements of the audit work to be undertaken on the financial statements of Walsall Metropolitan Borough 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, as they relate to our responsibility to provide an opinion on the Council's financial statements and our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

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. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

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

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The following key matters have been identified from our detailed risk assessment for our audit of the 2009-10 accounts:

- SORP 2009: Accounting for Private Finance Initiatives (PFI)
- Asset valuations
- Single status agreement
- SORP 2009: Changes in Accounting
- Impact of the economic climate
- Asset valuations - Airport
- Clawback of grant awarded

1 Financial statements

1.1 Our approach

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 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.

As we have now completed our work on the 2008-09 statement of accounts, we have set out below our detailed risk assessment for our audit of the 2009-10 accounts. This risk assessment, summarised in the tables 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 Audit Committee following the conclusion of our financial statements audit in September 2010.

1.2 Key national audit matters

Issue	How we plan to respond
SORP 2009 - Accounting for Private Finance Initiatives (PFI) The Council has three PFI arrangements. The 2009 SORP requires local authorities to adopt requirements for accounting for PFI schemes that are consistent with International Financial Reporting Standards and the adaptation of IFRIC 12 *Service Concessions* contained in the Government's 2009-10 Financial Reporting Manual (FREM). A detailed assessment of each scheme will be required to determine whether the PFI assets should be recorded on the Council's own balance sheet. There is a risk that these may be incorrectly accounted for, due to their complexity and nature.	We will involve our technical specialists, at appropriate stages in the Council's preparations, to review and discuss the proposed PFI accounting treatments and audit evidence requirements.
Asset valuations FRS 11 requires the Council to formally assess its assets for indicators of impairment and assess the impact of these on the carrying value of its assets. There is a risk that assets are not recorded in the financial statements at appropriate values, that reflect current market conditions. There is also the risk that the Council does not undertake this assessment on a timely basis to enable it to update its asset register to reflect any changes in value at the balance sheet date.	We will work with the Council to ensure that a formal assessment of impairment is undertaken to enable us to review and comment upon its appropriateness at our interim audit. We will review the Council's closedown timetable to ensure that adequate provision is made to take account of changes in asset values, so these can be accurately reflected in the draft financial statements.
Single Status Agreement Many authorities, including Walsall Metropolitan Borough Council, are experiencing large numbers of claims for back pay from appeals about unequal pay arising from the implementation of the single status agreement.	We will review the Council's assessment of the likelihood of any such claims resulting in financial settlement and associated treatment in the Statement of Accounts.

Issue	How we plan to respond
SORP 2009 - Changes in Accounting The 2009 SORP has introduced a number of changes, such as: ▪ national non domestic rates and council tax are to be accounted for in the Council's financial statements on an agency basis, ie the Council only discloses its own share of debtors and creditors of the Collection Fund ▪ additional remuneration disclosures for senior employees ▪ requirement to disclose the number of employees earning over £50,000 in bands of £5,000. Previously the bands were £10,000. 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. We will also undertake a review of all disclosures made in the Council's financial statements against the SORP to assess compliance with reporting requirements.
Impact of the economic climate The economic client has changed significantly over the last twelve months, which has resulted in additional risks that all public sector bodies will need to consider during 2009-10 and beyond. In many cases the potential risks listed below are likely to have an impact in relation to both the financial statements and the Council's ability to achieve value for money, as well as risks to financial management and financial health. Such risks include: • reduction in capital receipts; • impairment of fixed assets due to the collapse of the property market • treasury management risks; • increased pensions deficit leading to additional costs from increased employer contributions; • increased demand for services, e.g. housing, benefits, social care, education, healthcare; and • increased costs of pay and price inflation.	We will continue to monitor the Council's plans for closing the funding gap identified in the latest Medium Term Financial Strategy and addressing the additional demands placed on resources by the general economic climate and any funding announcements as part of our work on Use of Resources. This includes the impact on reserves and future spending plans/forecasts of the Council's estimated overspend for 2009-10 of £2.2million. We will also consider the impact the economic climate has had on the financial statements when undertaking our audit procedures, particularly in relation to: • asset valuations; • debt recoverability; • treasury management arrangements ; and • any post balance sheet events

1.3 Key local audit matters

Issue	How we plan to respond
Asset valuation - Airport In 2008-09, the Council disclosed its shares in Birmingham International Airport at cost, which was in line with the treatment adopted by the lead authority for the airport, Birmingham City Council, which contended that a fair value could not be reliably measured. There is a risk that emerging issues during the year will result in a reliable measurement of fair value being possible, which may result in an impairment to reflect current market conditions.	We will need to consider the treatment applied in order to be satisfied that the treatment used is being reviewed by the Council on a frequent basis and to ensure that the treatment is appropriate.
Clawback of grant awarded Following receipt of the Article 10 Inspection Report from GOWM in September 2009, the Council has undertaken a detailed eligibility review of the individual projects prior to submitting the final claim for certification. Significant reductions in grant funding resulted from this exercise. Due to the significance of the issue, we are currently undertaking an investigation into the factors that led to this situation. There is a risk that if lessons are not learned from this review, that the events will recur leading to additional unforeseen clawback of funds.	We will consider the findings from our investigation and assess the impact on our work for 2009-10.

1.4 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 plans in place to manage this transition and collate the required information to prepare the restatement entries.

We will continue to work with the Council's finance team to ensure that arrangements are in place to prepare an IFRS transition plan and we will monitor progress against this plan throughout 2009-10 and into 2010-11. We will discuss with the Council 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.

The Use of Resources assessment considers how well organisations are managing and using their resources to deliver value for money in delivering better and sustainable outcomes for local people.

As part of the our Use of Resources assessment we have identified the following key project areas:

- Schools Balances
- Audit Committee Effectiveness

2 Use of Resources

2.1 Use of Resources assessment 2009/10

The Use of Resources assessment is undertaken by auditors as part of our responsibilities under the Code of Audit Practice. The assessment considers how well organisations are managing and using their resources to deliver value for money in delivering better and sustainable outcomes for local people.

Under this area of our responsibilities we are required to arrive at a score of 1 to 4, based on underlying Key Lines of Enquiry ("KLOEs"), for each of the following three themes:

Theme	Description
Managing finances	• finances deliver strategic priorities • sound understanding of costs • financial reporting
Governing the business	• effective procurement • data quality • governance • internal control
Managing resources	• natural resources • workforce • asset management

2.2 Value for money conclusion

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements to securing economy, efficiency and effectiveness in its use of resources, having regard to a standard set of relevant criteria, issued by the Audit Commission.

This is known as the value for money conclusion. In meeting this responsibility we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Where relevant work has been undertaken by other regulator we will look to place reliance on their reported results to inform this work. We will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

In considering the value for money conclusion for a number of risks have been identified. These risks will be addressed through the delivery of two specific projects which will examine in more detail the arrangements the Council has in place in areas such as regeneration and service transformation.

2.3 Schools balances

In its 2009 report 'Valuable Lessons - Improving economy and efficiency in schools', the Audit Commission found that the overall level of schools' unspent revenue balances was substantial and exceeded £2 billion, which was considered by the Commission to be an inefficient use of public money.

We will carry out a review of the Council's schools balances to determine whether they are at appropriate levels in light of this Audit Commission report.

The detailed scope for this project is currently being developed.

2.4 Effectiveness of Audit Committee

The Council is keen to develop its Audit Committee function to demonstrate that it is achieving best practice for governance and internal control arrangements.

We will carry out a review of the Council's current arrangements for maintaining and developing an effective Audit Committee. This will include an assessment of the operation of the Audit Committee, including how it links with the other Scrutiny Committees of the Council and its Cabinet, and will work alongside officers and members in supporting its future development.

The detailed scope for this project is also currently being developed.

3 Grant claims

3.1 Introduction and approach

In addition to our Code of Audit Practice responsibilities, we are required, acting as agents of the Audit Commission, to certify the Council's grant claims and returns, in accordance with the following arrangements:

- claims below £100,000 are not subject to certification;
- claims between £100,000 and £500,000 are subject to a reduced, 'light-touch' certification; and
- claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of the specific claims.

The Council receives a significant amount of grant funding every year. We expect the following grants to require certification for 2009-10:

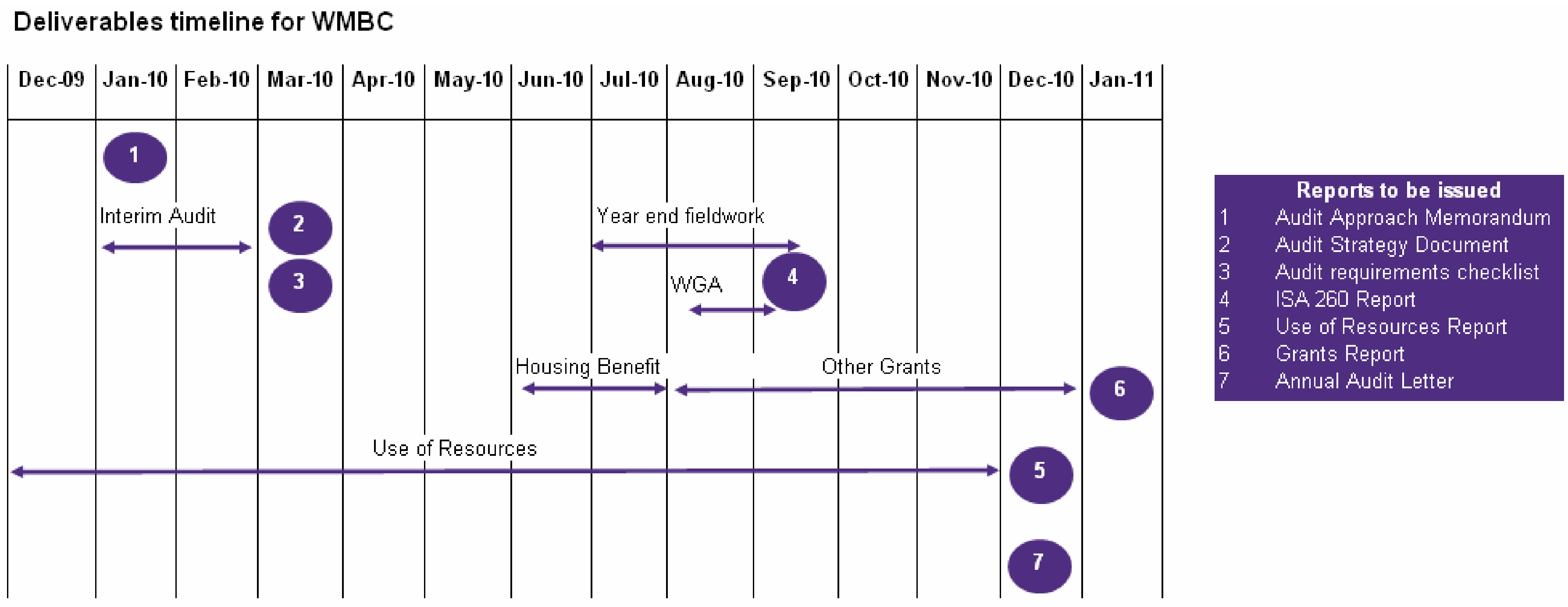
Reference/Name of Grant		Expected Council submission date *	Expected auditor submission date*
BEN01	Housing and council tax benefits scheme	31 May 2010	30 November 2010
EUR02	ERDF	30 April 2010	31 July 2010
EYC02	Sure start, early years and childcare	30 May 2010	31 October 2010
HOU21	Disabled facilities	30 June 2010	31 October 2010
LA01	National non-domestic rates return	26 June 2010	25 September 2010
PEN05	Teachers' pensions return	30 June 2010	30 November 2010
RG03	New Deal for Communities	30 September 2010	31 December 2010
RG30	Single Programme	31 July 2010	31 October 2010
TRA11	Local transport plan: major projects	30 September 2010	31 December 2010

* Based on 2008-09 dates

4 Logistics

4.1 Timetables and milestones

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we closely with your team to achieve the proposed timetable set out below:



4.2 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Jon Roberts	Engagement partner	T: 0121 212 4000 E: jon.roberts@gtuk.com
Kyla Bellingall	Audit manager	T: 0121 232 5359 E: kyla.bellingall@gtuk.com
Ian Barber	Performance manager	T: 0121 232 5357 E: ian.m.barber@gtuk.com
Nicola Coombe	Assistant manager	T: 0121 232 5206 E: nicola.coombe@gtuk.com

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

- IT audit specialist;
- VAT and employer tax specialists;
- Governance and risk assurance specialists; and
- Technical accounting specialists.

4.3 Fees

We proposed our audit fee for 2009-10 in a separate fee letter to the Council dated 30 April 2009, which was agreed with management. The agreed fee of £316,000, which is in accordance with Audit Commission national fee guidance.

We have proposed this fee on the basis that:

- draft statutory accounts are presented to us by 30 June 2010 for audit, subject only to routine adjustments;
- supporting schedules for all figures in the accounts are supplied on the first day of the final audit visit, in accordance with our working papers requests documents;
- all books and records are made available to us;
- your staff are available to help us locate information and to provide prompt explanations;
- we will have access to all relevant officers as agreed; and
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal will be billed separately after discussion with you.

4.4 Billing and payment schedule

Our billing and payment schedule, which reflects when we will carry out the work, will be as follows:

Billing date	Period	£ excluding VAT
March 2010	25%	79,000
June 2010	25%	79,000
September 2010	25%	79,000
December 2010	25%	79,000
Total	**100%**	**316,000**

4.5 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.

'The small print' sets out the basis on which we undertake your audit.

5 The small print

Engagement terms
The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Council for the year ended 31 March 2010.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

Ethical standards
We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of adverse or unexpected findings
We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the division, company and group management and documented for the Audit Committee's consideration.

Audit quality assurance
We are committed to achieving and maintaining the highest quality of service. If you have any comments on our service, please contact Jon Roberts as engagement lead, in the first instance. Alternatively you may wish to contact the Audit Commission's Head of Operations (Central) on 0121 733 7173, or Grant Thornton's National Head of Government Audit, Sarah Howard on 0113 245 5514.

We would be happy to discuss further the firm's approach to quality assurance.

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 below.

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 partner 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 Audit 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

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit wok
- the form of reports expected

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 Partner;
- 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 Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command 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.

Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with the Audit Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising

We would also be interested to hear if there are other matters that the Audit Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

Responsibilities of the Council

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).

Our audit approach

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.

Our 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.

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 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 fair presentation of the financial statements.

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.

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.

A full review the Council's Internal Audit service was completed in 2006-07. 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.

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.

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