

# Audit Opinion Plan

Sussex Police Authority

Audit 2009/10

May 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 £96,585, as indicated in my letter of 25 February 2009.
- 6 In setting the fee, we have assumed that:
  - the general level of risk in relation to the audit of accounts is consistent with that for 2008/09, except where noted in Table 1; and
  - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 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 Director of Finance 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 Sussex Police Authority could take to reduce its audit fees

- 9 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Police Authority could take and to provide ongoing audit support.

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# Auditors report on the financial statements

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- 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 Sussex Police Authority 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 Authority and Force, including assessing your own risk management arrangements;
  - considering the financial performance of the Authority and Force;
  - assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
  - assessing the risk of material misstatement arising from the activities and controls within the Authority and Force'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>Police Authorities are required to provide significantly more detailed analysis of income and expenditure in their 2009/10 accounts than in previous years and to restate 2008/09 comparative figures in the new format.</p> <p>The structure of the Authority's financial ledger does not correspond to the required format of the accounts and intermediate working papers are prepared from which the accounts are prepared.</p>	<p>We will determine whether controls over coding are sufficient to ensure that items of income and expenditure are recorded correctly in the financial ledger.</p> <p>We will substantively test the conversion of the information from the financial ledger to the statement of accounts to ensure the accurate classification of income and expenditure items in the accounts.</p>
<p>The CIPFA Statement of Recommended Practice 2009 requires the accounting for PFI schemes, such as the Sussex custody suite to be re-considered under International Financial Reporting Interpretation Committee pronouncement number 12 (IFRIC12). This may require the scheme to be brought onto the balance sheet in the 2009/10 accounts.</p>	<p>We will audit the accounting entries for the custody suite PFI scheme in detail.</p>
<p>The Force Financial Accountant left his post in February 2010. Contract accountants have been recruited to prepare the 2009/10 accounts.</p>	<p>We will consider what additional checks the Authority has put in place to supervise the work of the temporary accountancy staff.</p>

Risk area	Audit response
<p>The Statement of Recommended Practice (SORP) which is published annually by The Chartered Institute of Public Finance and Accountancy (CIPFA) governs the form and content of Local Authority accounts. The 2009 SORP introduces changes to the way council tax is accounted for between billing and precepting authorities. The Police Authority is required to account on an accruals basis for Council tax income, including appropriate shares of billing authority Council tax debtor and creditor balances. This represents a change in accounting policy requiring restatement of the 2008/09 comparative balances. There is a risk that the Authority may not have appropriate arrangements in place to obtain the necessary information from billing authorities, or ensure the accuracy of information received.</p>	<p>We will review how the Police Authority has responded to the changes required by the 2009 SORP and evaluate the effectiveness of arrangements made to ensure the receipt of timely and accurate information from billing authorities.</p>
<p>Amendments to the Accounts and Audit Regulations 2003 have introduced more detailed disclosure requirements for the 2009/10 accounts in respect of Senior Employees remuneration.</p>	<p>We will review and test the new disclosures to ensure they have been properly made.</p>
<p>The current SORP has removed disclosure requirements in respect of:</p> <ul style="list-style-type: none"> <li>● Section 137 Expenditure;</li> <li>● Expenditure on Publicity; and</li> <li>● Income under Local Authorities Goods and Services Act.</li> </ul>	<p>We will highlight any areas where the Authority has made additional voluntary disclosures, which may not be required by the SORP.</p>

# 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 of transaction streams and substantive tests of 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 reconciliation.
  - Investments – ownership.
  - Year-end feeder system reconciliations.

Where other early testing is identified as being possible, this will be discussed with officers.

- 17 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of Internal Audit's controls and substantive testing on the following systems.
  - Accounts receivable.
  - Cash and banking.
  - Fixed assets.
  - Treasury management.
  - Payroll.

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# Key milestones and deadlines

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- 18 The Police Authority is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 19 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 20 We will meet with the key contact as required and review the status of all queries. The frequency of our meeting will depend 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	19 March 2010
Receipt of accounts	14 June 2010
Forwarding audit working papers to the auditor	14 June 2010
Start of detailed testing	21 June 2010
Progress meetings	As required
Present report to those charged with governance at the Corporate Governance Committee	23 September 2010
Issue opinion	By 30 September 2010

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# The audit team

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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
Helen Thompson District Auditor	<a href="mailto:Helen-Thompson@audit-commission.gov.uk">Helen-Thompson@audit-commission.gov.uk</a> 0844 798 1790	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Richard Smith Audit Manager	<a href="mailto:r-smith@audit-commission.gov.uk">r-smith@audit-commission.gov.uk</a> 0844 798 6134	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Judith Barkley Principal Auditor	<a href="mailto:j-barkley@audit-commission.gov.uk">j-barkley@audit-commission.gov.uk</a> 0844 798 6104	Audit team leader. Responsible for on site delivery of key parts of the audit. Key point of contact for the Police Authority's accountants.

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## 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 Sussex Police has recently engaged three contract accountants to undertake work in preparing the 2009/10 accounts. Two of the contract accountants have previously been engaged by the Audit Commission as contract auditors. Neither contractor has undertaken audit work at Sussex Police. Both have had very limited dealings with the District Auditor and Audit Manager, and I do not consider that their appointment affects the independence of the audit staff.
- 24 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.

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## Meetings

- 25 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.

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## Quality of service

- 26 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 South East Head of Operations, Neil Childs ([n-childs@audit-commission.gov.uk](mailto:n-childs@audit-commission.gov.uk)).
- 27 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

- 28 Reports will be discussed and agreed with the appropriate officers before being issued to the Corporate Governance Committee.

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**Table 4**      **Planned outputs**

Planned output	Indicative date
Opinion audit plan	March 2010
Annual governance report	23 September 2010
Auditor's report giving an opinion on the financial statements	23 September 2010
Final accounts memorandum	If required

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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 Police Authority with reference to:
  - our cumulative knowledge;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Authority and Force 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, except where noted in Table 1;
  - 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 14 June 2010;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work. At present I plan to absorb the cost of this within the current audit fee.

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# 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 Corporate Governance Committee. The auditor reserves the right, however, to communicate directly with the Authority 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.

## Appendix 2 – Independence and objectivity

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

# 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**

Officers	Audit Commission staff	Timing	Purpose
Treasurer/ Deputy Treasurer, Director of Finance, Head of Finance	Audit Manager	March, July, September	General update plus: <ul style="list-style-type: none"> <li>• March – audit plan;</li> <li>• July – accounts progress; and</li> <li>• September – annual governance report.</li> </ul>
Head of Finance	Audit Manager and Team Leader (TL)	As required	Update on audit issues
Corporate Governance Committee	District Auditor and Audit Manager, with Team Leader as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> <li>• Audit Plan;</li> <li>• Annual governance report; and</li> <li>• Other issues as appropriate.</li> </ul>

## 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, covering the £180 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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