

Government and Public Sector

Eastern Shires Purchasing Organisation

2010/11 Audit Plan - DRAFT
November 2010



Members of the Management Committee
Eastern Shires Purchasing Organisation
Barnsdale Way
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November 2010

Ladies and Gentlemen,

We are pleased to present our 2010/11 Audit Plan, which explains how your key risks and issues drive our audit and summarises how we will deliver our work. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

We would like to thank officers for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Alison Breadon or Charlotte Kennedy.

Yours faithfully,

PricewaterhouseCoopers LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's [website](#).

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas.

Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Introduction

The purpose of this Plan

This Plan has been prepared to inform the officers and Members of Eastern Shires Purchasing Organisation (the Committee) about our responsibilities as your external auditors and how we plan to discharge them.

Every public sector body is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Committee. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Committee and the local government and procurement sectors, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

Period covered by this Plan

This Plan outlines our audit approach for the period 1 April 2010 to 31 March 2011, including the 2010/11 final accounts audit which we will undertake in the Summer 2011.

Risk assessment

Planning of our audit

We have considered the Committee's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Committee and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment and our planned response

The risk rating indicated in the table is explained below:

S: Significant audit risk - requiring special audit consideration to respond to the risk with a high level of assurance under ISA (UK&I) 315, including:

- evaluation of related controls;
- testing of their operation in the year if we wish to rely upon them; and
- design of specific audit procedures.

E: Elevated audit risk - where the nature, likelihood or magnitude of the risk requires us to do a higher level of audit work to address the risk fully

N: Normal audit risk - where we consider a low or moderate level of audit work will address the risk of material misstatement

Risks	Risk Level	Audit approach
<p>Revenue and Expenditure Recognition</p> <p>There is a risk that the Committee could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.</p>	S	<p>We will review your internal control, both before and after the implementation of the new financial services structure, for income and expenditure.</p> <p>We will:</p> <ul style="list-style-type: none"> • seek to place reliance on internal audit work on key income and expenditure controls; • test key income and expenditure controls to confirm if they are operating effectively; • evaluate the accounting policies for income and expenditure recognition; • test the appropriateness of journal entries and other adjustments; • review accounting estimates for income and expenditure, for example, provisions; and • perform analytical review on income and expenditure at year end and reconcile your management information to the information presented in your accounts.

Risks	Risk Level	Audit approach
<p>Management Override of Controls</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.</p>	S	<p>We will review your internal control structure, both before and after the implementation of the new financial system.</p> <p>In particular we will focus our work on testing of journals.</p> <p>We will carry out unpredictable procedures – procedures we have not carried out before, to test the robustness of controls in areas where we have not focused our testing before.</p>
<p>2010/11 – the first year of reporting under IFRS</p> <p>IFRS involves new and revised financial statements and an increase in disclosures. In the first year, there is a risk of material error in the restatements and reclassifications and in the information required by the new Code of Practice on Local Authority Accounting.</p> <p>The Committee is required to restate the 2009/10 financial statements together with its position at 1 April 2009.</p>	E	<p>We are working closely with you to ensure that the main differences are dealt with effectively.</p> <p>We will review the restated accounts during our planning and tell you about any necessary amendments.</p> <p>We will use experts who have worked in both commercial and NHS IFRS implementations to help deliver our work. We will provide detailed feedback on the final accounts to give you the assurance that the IFRS process has been successful and the Committee is in a good position for future years.</p>
<p>Financial Standing</p> <p>The Public Sector is experiencing increased pressures on many of its budgets as economic conditions have worsened. The Committee may therefore experience decreased demand for its products and services.</p>	E	<p>We will consider the Committee's budget monitoring processes to identify any unexplained material anomalies in the budgetary position.</p> <p>We will bear these risks in mind when carrying out our substantive testing at our final audit.</p> <p>Our work in this area will also be used to inform our Value for Money Conclusion on the Committee's Use of Resources.</p>
<p>System Upgrade</p> <p>During 2010/11 the Committee's integrated finance system has been upgraded.</p>	N	<p>We will review the upgrade of the finance system and will focus our testing on:</p> <ul style="list-style-type: none"> • project management arrangements; • data migration; • user and stress testing; • system interfaces; and • business continuity. <p>We will ensure that the system can be relied upon for our audit work.</p>

Risks	Risk Level	Audit approach
<p>Joint Committee Review</p> <p>During 2010/11 the Joint Committee is being reviewed by its host Authority, Leicestershire County Council. This could affect the way that the Committee works in the future.</p>	<p>N</p>	<p>We will review progress against the review program and consider the findings as they become available to us. Where significant changes are proposed, we will consider the need to update our Plan and, if necessary, we will report any changes to members.</p>

Your Expectations

Based on our discussions with management in relation to feedback on our 2009/10 audit, we set out below our understanding of your current expectations for the financial year ending 31 March 2011 together with our proposed response.

What you have told us is important to you	Actions we are taking/have taken
The experience of junior staff and their understanding of ESPO	We have rotated the team leaders on the ESPO audit and will ensure that all staff are fully briefed on your business and risks.
Listening to your point of view and managing your expectations	We commit to providing you with a 'no surprises' audit. We will ensure that we have frequent two way dialogue with senior management to understand any issues as they arise and to deal with any accounting / audit implications quickly, before year-end wherever possible
Deliver value through observations and recommendations	We will bring formal and informal observations and recommendations on both business issues, systems and accounting control, drawing on best practice from other clients we work with where appropriate.

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our overall materiality for the Committee is set at £721,195 calculated as a percentage of expenses; this represents the level at which we would consider qualifying our audit opinion. However, our audit work is planned to a lower materiality level of around £540,896.

However, ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £1,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Committee. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

We plan to rely on the work of internal audit for key controls in the following areas:

- Bank reconciliation;
- Income (control accounts; material feeder systems);
- Payables (control accounts; material feeder systems);
- General Ledger;
- Stock check;
- Payroll; and
- IT General Controls.

We plan to obtain our audit comfort for 2010/11 as follows:

Regular meetings with senior and divisional management	We update our understanding of your business, the risks that your business is facing and the control processes upon which management rely, building upon our previous knowledge and experience gained during prior audits
IT environment	We undertake testing of the application and general computer controls, along with discussion of any known system issues with local IT management. The review will be performed by our IT Risk Assurance team and we will incorporate the findings together with a follow up on prior year control issues into our year end audit approach.
Internal audit	We will review the work performed by internal audit during the year to assess whether there are any specific weaknesses noted which warrant further investigation at the year end.
Risk assessment and materiality	By understanding the materiality of each financial component, the risks attached, the effectiveness of management's control processes and the effectiveness of the internal audit team we plan detailed analytical review/substantive testing where considered appropriate.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2010/11 our conclusion will be based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The arrangements for concluding on the Committee's ability to secure value for money have not changed for 2010/11.

Our team and independence

Audit Team	Responsibilities
Engagement Director Alison Breadon 2 nd year on the audit 01509 604246 alison.breadon@uk.pwc.com	Alison is a Director in our East Midlands office and is the Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Manager Charlotte Kennedy 4 th year on the audit 01509 604097 charlotte.kennedy@uk.pwc.com	Charlotte is based in our East Midlands office and is the Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Team Leader Claire Hinton 1 st year on the audit 020 721 23884 claire.e.hinton@uk.pwc.com	Claire is transferring from our London office later this year and will be the Team Leader responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work.

Our team members

It is our intention that, wherever possible, staff work on the ESPO audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services provided to the Committee

At this stage we have not planned to undertake any work for you in addition to the work we have set out in this Plan.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Committee, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Management Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Management Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit Planning	Audit Plan	March 2011
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	Throughout the audit
	ISA (UK&I) 260 report incorporating specific reporting requirements, including: <ul style="list-style-type: none">• any expected modifications to the audit report;• uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;• material weaknesses in the accounting and internal control systems identified as part of the audit;• our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures;• any significant difficulties encountered by us during the audit;• any significant matters discussed, or subject to correspondence with, Management;• any other significant matters relevant to the financial reporting process; and• summary of findings from our use of resources audit work to support our value for money conclusion.	September 2011
Audit reports	Financial Statements including Use of Resources	September 2011

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Joint Committees for the 2010/11 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale for audit for the Committee is £39,590 - £49,487.

Due to our assessment of risk and your control environment, we categorise the Committee as low risk. Our 2010/11 fee is as follows:

	2010/11	2009/10
Accounts (note 1)	24,400	23,030
IFRS preparatory work (note 2)	0	2,000
Overruns (note 3)	0	2,000
Total	24,400	27,030

Note 1: From 2010/11, ESPO is required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase audit work, particularly in the first year when the previous year's accounts must be restated on the new basis, to provide prior year comparatives. The Audit Commission have reported that audit fees for local government bodies are expected to rise by approximately 6% reflecting the additional audit work which needs to be undertaken in this year. Consequently, our base audit fee has been increased to take account of this, although, as members will note, our overall fee remains significantly below the Audit Commission's indicative fee scale.

Note 2: This encompassed early work on the management arrangements in place for IFRS as well as the opening balance sheet figures.

Note 3: As part of the 2009/10 audit there were a number of system related issues that resulted in a cost overrun. We agreed this figure with the Assistant Director – Finance.

We have based the fee level on the following assumptions:

- officers meeting the timetable of deliverables, which we will agree in writing;
- we are able to place reliance, as planned, upon the work of internal audit;
- we are able to draw comfort from your management controls;
- no significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- an early draft of the Annual Governance Statement being available for us to review prior to 31 March 2011; and
- our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendices

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to Eastern Shires Purchasing Organisation and the terms of our appointment are governed by:

- the Code of Audit Practice; and
- the Standing Guidance for Auditors.

There are six further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Appointed auditor

Alison Breadon, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Alison Breadon is not a partner.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which [insert client's name] has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Eastern Shires Purchasing Organisation agrees to pay due regard to any representations which PwC may make in connection with such disclosure and [insert client's name] shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Eastern Shires Purchasing Organisation discloses this

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