

# Audit opinion plan

Wyre Forest District Council

Audit 2008/09

Date **February 2009**

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# Introduction

- 1 We issued our initial audit plan for 2008/09 to the Audit Committee on 23 June 2008, which set out the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced at the start of the financial year for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence. We are required to:
  - identify the risk of material misstatements in your accounts;
  - plan audit procedures to address these risks; and
  - ensure that the audit complies with all relevant auditing standards.
- 2 We have therefore set out below our approach to identifying opinion audit risks and have considered the additional risks that are appropriate to the current opinion audit.

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# Identifying opinion audit risks

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## Organisation level risks

- 3** 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:
- establishing the nature of the Council's activities;
  - identifying the business risks facing the Council, including assessing your own risk management arrangements;
  - considering the financial performance of the Council; and
  - assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

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## Information system risks

- 4** To comply with ISA (UK&I) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Council's information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 5** Material systems are those which produce material figures in the annual financial statements. We have identified that the Council has 12 material systems. For these systems we need to demonstrate our understanding by documenting the following.
- How transactions are initiated, recorded, processed and reported in the financial statements.
  - The accounting records relevant to the transactions.
  - How the Council identifies and captures events and conditions which are material to the financial statements e.g. depreciation.
  - The financial reporting process used to prepare the financial statements.

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## Assertions

- 6** When considering the risk of material misstatement we consider what the Head of Financial Services is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Council for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

- 7 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:
- Income and Expenditure accounts;
  - Cash flow
  - Statement of recognised gains and losses
  - Balance Sheet items; and
  - Disclosures and presentational elements of the financial statements.
- 8 The following table details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

**Table 1 Assertions**

Assertions that will be considered by area of financial statements

MEANS	INCOME AND EXPENDITURE	BALANCE SHEET	DISCLOSURE
Is it recorded at the right amount and are the details right?	ACCURACY		ACCURACY
Is it in the right place in the accounts?	CLASSIFICATION		CLASSIFICATION
Is it all there?	COMPLETENESS	COMPLETENESS	COMPLETENESS
Is it in the right year?	CUT - OFF		
Is it real, does it exist?		EXISTENCE	
Has it happened?	OCCURRENCE		OCCURRENCE
Does it belong to the body? Are they entitled to use it?		RIGHTS & OBLIGATIONS	RIGHTS & OBLIGATIONS
Is it worth it?		VALUATION & ALLOCATION	VALUATION & ALLOCATION

# Identification of specific risks

- 9 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

**Table 2 Specific risks**

Specific opinion risks identified

Risk Area	Assertions	Audit response
Redundancy costs - the council has recently announced it will be making staff redundant and has sought a capitalisation direction to fund these.	all	We will consider the accounting treatment of redundancies
There are well publicised risks surrounding the Council's investments in Icelandic banks and the associated interest receivable.	all	We will review the accounting treatment and consistency with Accounting standards and any supplementary guidance issued.
<b>Impairments</b> – given the current property market the authority will need to consider the carrying value of its assets	accuracy, completeness, occurrence	We will consider any impairment review and consistency with accounting standards and published guidance.
Financial standing - Recent events have meant that the assumptions on which the original budget were based have changed, particularly around interest rates and the related investment income. Action has been taken in year to mitigate the impact including stopping all non essential expenditure. These factors will have resulted in many budget variations The absence of robust commitment accounting increases the risk of inaccurate in year forecasting of outturn.	all	We will continue to monitor the financial standing of the authority. We will design audit procedures including cut - off testing to confirm the accuracy of the Council's financial statements.

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# Testing strategy

- 10** On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 11** Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 12** 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;
  - Fixed Assets – confirmation of ownership and existence;
  - Year end feeder system reconciliations;
  - Contingent liabilities;
  - Annual Governance Statement
  - Provisions
  - Investments
  - Review of methodologies for estimates
  - Related party transactions
  - Opening balances agreement
  - Review of Impairments
- 13** Where other early testing is identified as being possible this will be discussed with officers.
- 14** Where we elect to test compliance with key controls (which for our purposes are those controls that may prevent or detect material misstatement against the specific management assertions) and our controls testing is successful then, under certain circumstances, we can place reliance on these controls for three years. However, if there are circumstances such as changes to the financial system or to key staff we have to test controls again within the three year cycle.

# Internal audit

- 15** Every three years, or when there is a significant event, we undertake a full review of internal audit's compliance with the requirements of the CIPFA Code of Practice for Internal Audit. This review took place as part of the 2007/2008 audit. The review covers the following areas set out in the standards:
- Scope of internal audit
  - Independence
  - Ethics for internal auditors
  - Audit committees
  - Relationships
  - Staffing, training and continuing professional development
  - Audit strategy and planning
  - Undertaking audit work
  - Due professional care
  - Reporting; and
  - Performance, quality and effectiveness
- 16** The results of this review influence our conclusion of whether internal audit is effective as a management control (as part of the control environment assessment and the level of reliance that we could choose to place on internal audit)
- 17** We were satisfied with arrangements last year and were able to place reliance on specific pieces of internal audit work. In the Autumn the Chief Internal Auditor left the Council and the post has been vacant and is now unlikely to be filled. Interim arrangements have been in place involving peer review from another council. Due to these, and further proposed changes we feel that we need to review again some aspects of internal audit overall arrangements.
- 18** If we are able to once again place reliance on Internal audit, then for those information systems we will cover in 2008/09, we will review and evaluate specific areas of internal audit work and reperform or extend some of the testing to confirm that it has been carried out satisfactorily.

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## IT assessment

- 19** As part of our work to understand the audited body we complete a risk assessment of the IT environment in order to assess whether we can place reliance on the information produced by the material information systems. We have completed this assessment and are able to rely on IT controls.



# Financial Statements audit

- 20** The closedown and audit of the final accounts in 2007/08 took place smoothly; the Authority produced accounts and working papers which were of a good standard and responded promptly to audit queries. We understand that the Council is taking steps to improve accounting processes and reports so that they are more automated, in order to reduce manual procedures and thus streamline the final accounts process. It is possible that there may be changes in staff involved in producing the accounts due to the current restructuring exercise.
- 21** In 2008/09 we will endeavour to continue to deliver an early audit in line with best practice. The table below highlights actions that the auditors and council need to achieve to enable the opinion work to be completed as efficiently as possible.

**Table 3 Key factors to the Audit**

Authority Actions	Auditor Actions
Agree dates and place appropriate adverts in the local press and provide us with a copy of these	Ensure that the letter calling the audit is sent to you in sufficient time to enable you to place appropriate adverts in the local press.
Complete checklists with references to supporting evidence (electronic where ever possible)	Provide electronic copies of standard checklists as soon as they become available. These include: <ul style="list-style-type: none"> <li>• accounts disclosure checklist</li> <li>• capital accounting checklist</li> <li>• capital financing checklist.</li> </ul>
Advise us of your closedown plans and keep us informed of any significant issues or potential slippage. provide us with sight of the draft AGS Ensure the statement of accounts is approved by a resolution of a committee or the authority meeting as a whole as soon as reasonably practicable (and by 30 June at the latest)	Monitor progress against your closedown plan. Liaise with DOF regarding any emerging/ developing issues and take steps to ensure early resolution. provide feedback on the content of the draft AGS before approval
Provide the complete set of financial statements, disclosure and notes on 30 June 2009.	respond to queries in advance of the statement audit
prepare comprehensive working papers to support all of the financial statements and disclosures and provide these in full on 13	provide a schedule of working papers to assist finance staff during the closure of

Authority Actions	Auditor Actions
July 2009	the accounts
arrange for appropriate office accommodation for the audit team for the duration of the statements visit and ensure that key staff are available to respond to queries	maintain a schedule of all queries and issues arising from the audit and discuss these with the accountancy services manager/ principal accountant
clearly document agreed amendments to the accounts	agree all amendments to the accounts with the accountancy services manager/ principal accountant
set a date for the audit committee to receive the auditors annual governance report in advance of the 30 September deadline	prepare AGR for those charged with governance and discuss with officers in advance of the audit committee.

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# Assessment of materiality

Audit testing should be undertaken with the objective that material misstatements in the accounts are identified. Materiality should be considered in relation to the Authority's statement of accounts as a whole, as well as to the individual items in the balance sheet, income and expenditure account or other statements. Generally a matter will be material if knowledge of it would be likely to influence the user of the accounts or distort the understanding of the accounts.

The overall planning materiality for this years audit has been calculated in line with the Audit Commission guidance. We have assessed materiality at £500k (based on 1% of the 2007/08 gross expenditure and will be revised on receipt of the 2008/09 financial statements).

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# Key milestones and deadlines

- 22** The Council is required to prepare the financial statements and arrange for unaudited accounts to be approved by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. The key stages in the process of producing and auditing the financial statements are shown in Table 4.
- 23** We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 24** Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

**Table 4 Proposed timetable**

Activity	date
Opinion Plan to be presented to Audit Committee	March 2009
Opinion systems work:	January - March 2009
<ul style="list-style-type: none"><li>• Walkthrough material subsidiary financial systems</li><li>• Review Internal Audits system and undertake additional testing as required</li></ul>	
Accounts submitted to external audit	by 30 June 2009
Post statement on site work commences	13 July 2009
Annual governance report presented to audit committee	(tbc) before 30 September 2009
Deadline for submission of audited accounts	30 September 2009
Post statements review meeting	September/ October 2009

Note 1: the authority's financial statements include material figures relating to the local government pension scheme administered by Worcestershire county council. We rely on assurance from the county auditors for these figures. We will also be considering Council arrangement for obtaining, reviewing and recording this information in its financial statements.

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# Audit fees

In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £65,968. In setting the fee we assumed that:

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified in the previous year
- You will inform us of significant developments impacting on our audit
- Internal audit meet 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 13 July 2009. requested information will be provided with agreed timescales
- Prompt responses will be provided to draft reports and
- Additional work will nit be required to address questions or objections raised by local government electors

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Since we set the original fee, unanticipated issues have arisen. This includes changes to internal audit arrangements, accounting treatment of Investments and associated interest receivable and the treatment and accuracy of redundancy costs. Any changes to staff involved in preparing the accounts could also impact on the quality of the accounts and thus the audit. These factors will increase our audit work from that planned and thus increase the fee. The fee for the audit of the financial statements will be revisited once our work on your financial systems is complete and increases in fee will be notified as soon as they become apparent. We expect that this work could be up to 10 additional days (£5300)