

Audit Opinion Plan

Bromsgrove District Council

Audit 2008/09

March 2009



Contents

Introduction	3
Identifying opinion audit risks	4
Identification of specific risks	7
Testing strategy	8
Internal Audit	9
Financial Statements audit	10
Assessment of materiality	11
Key milestones and deadlines	12
Use of Resources and the Value for Money Conclusion	13
Reporting	15
Audit fees	16
Appendix 1 – Key milestones and deadlines	18

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.
-

Introduction

- 1 We issued our initial audit plan for 2008/09 to the Audit Board on the 9 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.
- 2 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.
- 3 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.
- 4 In addition, this opinion plan will set out:
 - the management assertions;
 - the areas where we require assurance;
 - how we will liaise with Internal Audit and seek to place reliance on their work; and
 - a timetable for the different stages of our work.
- 5 We give an independent opinion on the financial statements and also reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. Our review of your use of resources arrangements now leads directly to the value for money conclusion.

Identifying opinion audit risks

Organisation level risks

- 6 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.

Information system risks

- 7 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.
- 8 Material systems are those which produce material figures in the annual financial statements. We have identified that the Council has the following material systems.
- General ledger
 - Payroll
 - Benefits
 - Council Tax
 - NNDR
 - Income and debtors
 - Expenses and creditors
 - Treasury management
 - Fixed Assets
 - Cash Receipting
- 9 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.

Identifying opinion audit risks

- How the Council identifies and captures events and conditions which are material to the financial statements eg depreciation.
- The financial reporting process used to prepare the financial statements.

Assertions

- 10** When considering the risk of material misstatement we consider what the Head of Financial Services is stating when she 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.
- 11** 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 account items;
 - Balance Sheet items; and
 - disclosures and presentational elements of the financial statements.
- 12** Table 1 details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

Table 1 Management Assertions

The assertions are set out in ISA (UK & I) 500 and are considered by the area of financial statements

QUESTION - MEANS	INCOME & 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

QUESTION - MEANS	INCOME & EXPENDITURE	BALANCE SHEET	DISCLOSURE
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

13 We have considered the additional risks that are appropriate to the current opinion audit and these are:

- transfer of the payroll system during the year;
- consideration of impairments on fixed assets in light of the current economic climate; and
- the introduction of an electronic ordering and invoicing system during the year.

These are set out in Table 2.

14 We are also aware from our 2007/08 opinion audit of the following items.

- The council does not have a clear methodology for identifying and reporting on its relationships with Related Parties. We recommended that the Council adopt a clear policy for the identification and reporting of these.
- We recommended that up to date valuations should be obtained for all properties scheduled for disposal.
- An error was identified in the financial statements regarding a number of properties which being valued at under the £10,000 de-minimus level and were not included on the Asset register. A revised valuation was obtained for these assets and they were reflected in the council's accounts.
- The methodology for identifying prepayments needs refinement.

Table 2 Additional risks

Additional identified opinion risks

Risk Area	Assertions	Audit response
Transfer of payroll system	All	Review of Internal Audit work undertaken on the old payroll system and data transfer. Undertake audit procedures on the new payroll system.
Impairment and valuation of Fixed Assets	Valuation & allocation	Review the proposed treatment of valuation of fixed assets
Related Parties disclosure	All	Review proposed disclosures
Prepayments	All	Review proposed treatment

Testing strategy

- 15 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.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 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
 - Review of Impairments.
- 18 Where other early testing is identified as being possible this will be discussed with officers.
- 19 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.
- 20 This cyclical testing approach has been discussed with your officers and a protocol of joint working with Internal Audit has been prepared.

Internal Audit

- 21** Every three years, 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 2007/08 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
 - Performance, quality and effectiveness.
- 22** 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 choose to place on internal audit.
- 23** Liaison with the internal audit team will continue throughout the audit.
- 24** 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.

Financial Statements audit

- 25 The closedown and audit of the financial statements in 2007/08 went well; the Council produced accounts and working papers in general to a good standard and requests for additional information were responded to promptly.
- 26 We have been working with internal audit and finance staff to improve the audit process.

Assessment of materiality

- 27 Audit testing should be undertaken with the objective that material misstatements in the accounts are identified. Materiality should be considered in relation to the Council's financial statements as a whole, as well as to the individual items. Generally a matter will be material if knowledge of it would be likely to influence the user of the financial statements or distort the understanding of the financial statements.
- 28 The overall planning materiality for this year's audit has been calculated in line with the Audit Commission guidance at £698k and will be revised on receipt of the 2008/09 financial statements. This gives a testing threshold of £140k and a Trivial items threshold at 1 per cent of materiality of £7k. For errors or issues found above the trivial items threshold we are required to investigate them and report them to the Council.

Key milestones and deadlines

- 29 The Council is required to prepare the financial statements 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 3.
- 30 We will agree with you a schedule of working papers required to support the entries in the financial statements. An initial draft working paper requirement schedule was forwarded to the Head of Financial Services in January 2009.
- 31 We will meet with the key contact and review the status of all queries on a weekly basis. If necessary, we will meet at a different frequency depending upon the need and the number of issues arising.
- 32 A proposed timetable is shown in Table 3 and a schedule of milestones and deadlines is attached at Appendix 1.

Table 3 Proposed timetable

Task	Deadline
Control and early substantive testing	31st May 2009
Receipt of accounts	30th June 2009
Forwarding of audit working papers to the auditor	30th June 2009
Start of detailed testing	July 2009
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	September 2009
Issue of opinion	September 2009

Use of Resources and the Value for Money Conclusion

- 33 From 2008/09 the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 34 Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 35 The assessment is structured into three themes.
- Managing finances: sound and strategic financial management.
 - Governing the business: strategic commissioning and good governance.
 - Managing resources: effective management of natural resources, assets and people.
- 36 The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant.
- 37 The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year and for 2008/09 they are shown in the table below.

Table 4 Use of Resources Criteria for 2008/09

Key Lines of Enquiry (KLOE)	Fire Authorities	Single tier and County councils	Districts
Managing finances			
1.1 Planning for financial health	√	√	√
1.2 Understanding costs and achieving efficiencies	√	√	√
1.3 Financial reporting	√	√	√
Governing the business			
2.1 Commissioning and procurement	√	√	√
2.2 Use of information	√	√	√

Use of Resources and the Value for Money Conclusion

Key Lines of Enquiry (KLOE)	Fire Authorities	Single tier and County councils	Districts
2.3 Good governance	√	√	√
2.4 Risk management and internal control	√	√	√
Managing resources			
3.1 Natural resources	X	√	X
3.2 Strategic asset management	X	√	X
3.3 Workforce	√	X	√

Reporting

- 38 We report the findings of our significant pieces of work to the Audit Board. This includes:
- Audit plan;
 - ISA 260 - Annual Governance Report;
 - Use of Resources Report; and
 - Annual Audit Letter.
- 39 Where necessary we meet with the Chief Executive and the Head of Financial Services prior to each Audit Board to highlight and discuss any emerging issues.

Audit fees

- 40 In my original audit plan, the total fee for the audit work was based on my best estimate at the time and agreed at £107,600, of which £61,800 relates to the financial statements opinion audit.
- 41 Since the preparation of this estimate other matters have come to my attention for which an adjustment is required to the fee. These matters are:
- the transfer of the payroll system;
 - the introduction of an electronic ordering and invoicing system; and
 - we will need to repeat our triennial review of Internal Audit in order to ensure that we can place reliance on their work. This is as a result of the change in personnel and peer review procedures from those in place for the 2007/08 audit.
- 42 To ensure compliance with International Auditing Standards, systems which are material to the production of the financial systems have to be documented and tested to ensure reliance can be placed on them. In the first year of audit these systems are documented and tested and then a cyclical approach is taken for future years with any new systems being subjected to the initial assessment requirements. We have identified Payroll and Expenses & creditors as material financial systems and additional work is required on these systems to that originally identified and planned for at the time of my original fee estimate.
- 43 To reduce the costs to the Council of external audit we place the maximum reliance on the work undertaken by Internal Audit. In order to do this we assess the adequacy of the Internal Audit arrangements including its compliance with appropriate professional standards to ensure that that this reliance can be placed on their work. This assessment is undertaken usually once every three years. A triennial review was undertaken last year as it was the first year of my audit, however it will need to be repeated this year to cover the changes in internal audit personnel and procedures.
- 44 Having considered the above risks an additional fee of £5,240 is required giving a revised estimate for the fee relating to the financial statements opinion of £67,040.
- 45 The delivery of the audit within this fee assumes:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for the previous audit year;
 - you will inform us of significant developments impacting on our audit;
 - Internal audit meets the appropriate professional standards;
 - delivery of the financial statements, working papers and annual governance statement to us by end June 2009;
 - provision of working papers to the standard set out in our Working Paper requirements document;
 - Internal audit undertakes appropriate work on systems in accordance with the agreed timetable sufficient that we can place reliance for the purposes of our audit;

Audit fees

- no new significant risks requiring specific audit attention emerging during the course of the opinion audit;
 - requested information will be provided within agreed timescales; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 46 The fee for the audit of the financial statements will be re-visited once our work on your financial statements is complete and any changes to the fee will be notified to you as soon as they become apparent.

Appendix 1 – Key milestones and deadlines

Core Audit Task	Audit work carried out	Deadline
Progress meeting between external audit and Chief Executive/Head of Financial Services		pre Audit Board dates: 16th March 2009 29th June 2009
Internal Opinion Plan presented to Audit Board	December 2008/January 2009	16th March 2009
Opinion Systems work Walkthrough material subsidiary financial systems Review Internal Audits system testing	March/May 2009	31st May 2009
Updating opinion testing strategy – interim DA review	March/May 2009	31st May 2009
Use of Resources/VFM conclusion Receipt of evidence Interviews to be carried out	February April 2009	In line with national guidance and June 2009 for VFM conclusion
Pre statement substantive testing Fixed Assets Estimates	March/April 2009	31st May 2009
Meeting with Head of Financial Services	As required	
Accounts and working papers available to external audit together with Annual governance statement		30 June 2009
Post statement opinion planning – DA review	July 2009	
Post statement on site work (progress meeting with key finance staff weekly)	July/September 2009	

Appendix 1 – Key milestones and deadlines

Core Audit Task	Audit work carried out	Deadline
Post statement review of audit work DA internal opinion summary report Draft governance report	July 2009 – September 2009	
Core Audit Task	Audit work carried out	Deadline
Final DA opinion review	mid September 2009	
Meeting between external audit and finance staff	mid September 2009	
Annual governance report presented to Audit Committee	September 2009	30th September 2009
Opinion with VFM conclusion and certificate	September 2009	30th September 2009

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, auditing the £200 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk