

Audit Opinion Plan

Oxford City Council

Audit 2009/10

Date **March** 2010

DRAFT

Contents

Introduction	3
Identifying opinion audit risks	4
Identification of specific risks	6
Testing strategy	8
Key milestones and deadlines	9
Audit fees	10
The Audit Team	10

DRAFT

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 2009/10 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.

DRAFT

Identifying opinion audit risks

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.

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 eleven 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 eg depreciation.
 - The financial reporting process used to prepare the financial statements.

Assertions

- 6** When considering the risk of material misstatement we consider what the Executive Finance Director is stating when the financial statements are signed off. 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.

Identifying opinion audit risks

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 items;
- Balance Sheet items; and
- Disclosures and presentational elements of the financial statements.

DRAFT

Identification of specific risks

8 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
Fixed asset valuation	Given the issues identified in prior years and the qualified opinion resulting from these, we will be undertaking a close review of how your systems are recording assets and valuations. We are liaising with officers to confirm the instructions given to the DV, the valuations by the DV and how these valuations are interpreted.
Project management and quality review of the statements	We are meeting with your finance team on a fortnightly basis to review progress this year and monitoring the response to recommendations made in prior years.
Fixed asset software system	We have monitored progress in the work done to date by the Council in bringing the system up to date. We will review the work that Internal Audit has done on the in year transactions when this is complete.
Issues identified by Internal Audit	We will review the work of internal Audit and the responses made by the Council before deciding what reliance we can place on the internal control system in place.
Given the value of the claim and the complexity of the underlying calculations obtaining sufficient audit assurance by the opinion date of 30 September on the Housing Benefit and Housing Subsidy claims presents a risk both to the Council and to us.	<p>We will conduct the following audit procedures prior to the audit opinion date:</p> <ul style="list-style-type: none"> Obtain explanations and evidence for identified variances; Agree the personal account balance with the claiming department; and Reconcile the main accounting system or feeder systems to the grant claim

Identification of specific risks

Risk area	Audit response
Our systems work is still in progress in a number of areas and should additional risks emerge we will inform the Council.	We will inform the Council of any additional risks that we identify.
Internal control weaknesses identified in our 2008/09 annual governance report	We have been meeting with the finance team to discuss progress made and will test the progress made when we come to do our detailed interim testing in April.
PFI and IFRC 12 concessions. The Council is not required to implement IFRS until 2010/11 however it does need to account for PFI and IFRC 12 concessions in 2009/10	We will review action taken by the Council to identify such items and if any have been identified review the accounting treatment for them.

DRAFT

Testing strategy

- 9** 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.
- 10** Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 11** 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 – in particular valuation;
 - Year end feeder system reconciliations;
 - Contingent liabilities;
 - Statement of Internal Control; and
 - Review of Impairments.
- 12** Where other early testing is identified as being possible this will be discussed with officers.

DRAFT

Key milestones and deadlines

- 13 The Council 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.
- 14 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 15 Every two weeks, 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 2 Proposed timetable

Task	Deadline
Control and early substantive testing	March 2010
Receipt of accounts	30 June 2010
Forwarding of audit working papers to the auditor	1 July 2010
Start of detailed testing	5 July 2010
Progress meetings	Fortnightly
Present report to those charged with governance at the Audit committee	TBC September 2010
Issue of opinion	By 30 September 2010

Audit fees

- 16** In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at **£213,000**. Having considered the above risks and subject to the required improvements set out in our 2008/09 annual governance report being delivered, I remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee at this stage.

DRAFT

The audit team

17 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
Maria Grindley Engagement Lead	m-grindley@audit-commission.gov.uk 0844 798 8952	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Alan Witty Audit Manager	a-witty@audit-commission.gov.uk 0844 798 8956	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Hannah Ormston Principal Auditor	h-ormston@audit-commission.gov.uk 0844 798 8963	Responsible for day to day supervision of the audit.