Audit Opinion Plan

Dudley Metropolitan Borough Council

Audit 2008/09

April 2009

Contents

Introduction

1 We issued our initial audit plan for 2008/09 to the Audit Committee on 10 April 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.

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 the Council's 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 Director of Finance is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which presents fairly 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:

- Revenue items;
- 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	REVENUE	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
Accounting for equal pay settlements	All	We will test the accounting disclosures for the funding of the equal pay settlements to ensure compliance with the SORP, regulations and capitalisation direction.
Valuation of investment in Birmingham Airport	Valuation & allocation	We will review the Council's valuations.
The Dudley Grid for Learning PFI contract is due to be renewed in 2008/09. The accounting treatment of the PFI scheme will need to be re-considered to assess whether the existing treatment is still appropriate	All	We will review the Council's accounting treatment for this PFI contract
The recession has had a negative impact on asset values. There is a risk that the Council's assets may not have been appropriately impaired and are overvalued.	Valuation & allocation	We will review the Council's impairment calculations for fixed and current assets.

Testing strategy

10 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.

11 Our testing will 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 will be carried out early.

- Review of accounting policies.
- Fixed assets – confirmation of ownership and existence, revaluation and disposals.
- Review of impairments.
- Year end feeder system reconciliations.

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

Working papers

14 A working paper checklist will be prepared by ourselves and provided to Corporate Finance. This checklist is a key document as it sets out clearly what evidence we need from the Council to support the accounts. It is essential that these working papers are available as soon as the accounts are provided for audit. Any delay in providing working papers will have a detrimental effect on how quickly the audit can be completed. The checklist lists all key working papers but is not intended to be a definitive list of all evidence that will be requested during the audit. This is because it is not possible to state in advance of the audit all the documents that will be needed and also because we do not wish to request evidence that we may not need.

Approach to misstatements found during the audit

15 The audit is performed in accordance with professional auditing standards. These standards require us to assess whether any unadjusted misstatements in the financial statements are material, immaterial but more than trivial or trivial. The action that we take in respect of an adjusted misstatement is driven by this assessment. Table 2 below details what potential audit action could be taken in respect of the different types of unadjusted misstatements. The purpose of the table is only to give an indication of what audit action may be taken. It is not meant to be prescriptive and should not be interpreted as such.

Table 3 Unadjusted misstatements

Potential audit action in respect of unadjusted misstatements

Classification of unadjusted misstatements	How classification is determined	Consider impact on opinion ?	Required to report to Audit Committee ?	Report misstatement to officers ?
Material	>1% of gross expenditure	Yes	Yes	Yes
Immaterial but not trivial	Lower of >1% of materiality and £500k	Yes (but will depend on nature and value of misstatement)	Yes	Yes
Trivial	Lower of <1% of materiality and £500k	No	No	No

16 It should be noted that a separate materiality level will be applied for balance sheet items where both sides of the double entry appear on the balance sheet. This materiality level will be set at one per cent of the net assets figure. In addition, there will be some entries in the financial statements which we will consider to be material based on their political or numerical sensitivity even though they are below the calculated materiality levels. Such entries include related party transactions and payments to members and senior officers.

17 If a misstatement is corrected in the financial statements then the only audit action needed is to consider whether the adjustment to the statements should be reported to the Audit Committee at the conclusion of the audit. In deciding whether to report such an adjustment to the Audit Committee we will have regard to the value and nature of the adjustment and its impact on the statements.

18 The approach to agreeing an adjustment to the financial statements will depend on the nature of the error found. For example, if the error relates to a debtor raised by a directorate then we would discuss that error with both the directorate and Corporate Finance.

Key milestones and deadlines

19 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 4.

20 We will meet weekly with Corporate Finance once the statements have been received, for audit to review the status of all audit queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 4 Proposed timetable

Task	Deadline
Control testing	May 2009
Early substantive testing	June 2009
Receipt of accounts	1 June 2009
Forwarding of audit working papers to the auditor	1 June 2009
Start of detailed testing	Following receipt of accounts
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	September 2009 (exact date to be confirmed)
Issue of opinion	By 30 September 2009

Audit fee

21 In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £196,795. Having considered the above risks I remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee.

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