

# Audit Opinion Plan

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Carlisle City Council

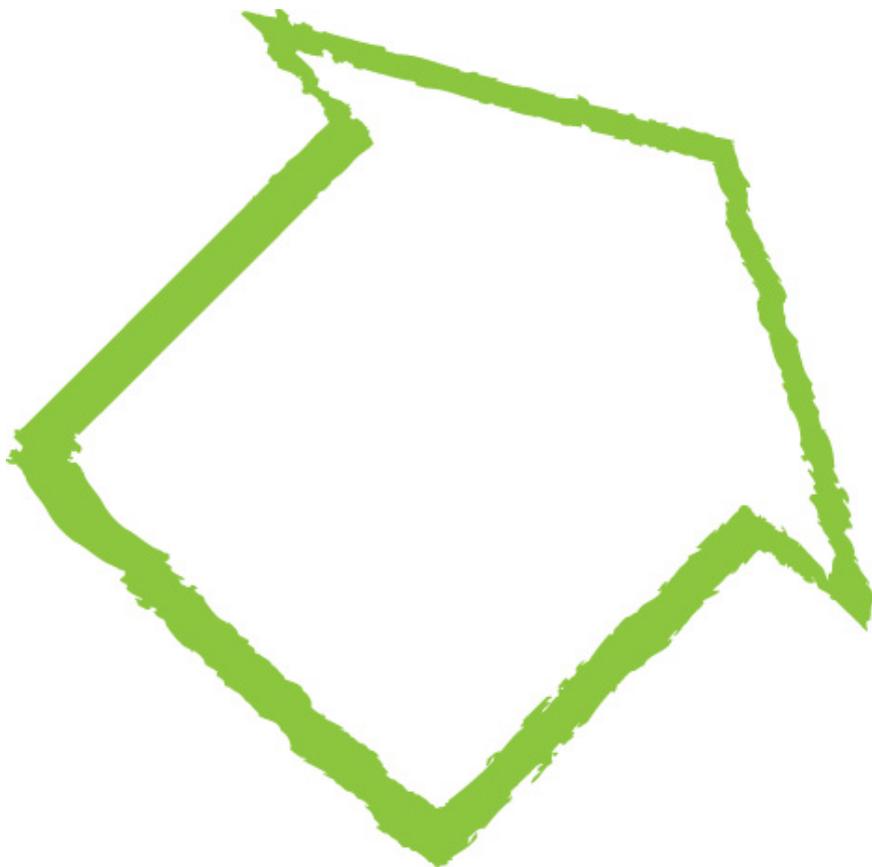
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Audit 2008/09

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June 2009

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# Contents

|   |           |
|---|-----------|
| <b>Introduction</b>                     | <b>3</b>  |
| <b>Identifying opinion audit risks</b>  | <b>4</b>  |
| <b>Identification of specific risks</b> | <b>6</b>  |
| <b>Testing strategy</b>                 | <b>8</b>  |
| <b>Key milestones and deadlines</b>     | <b>9</b>  |
| <b>Audit fees</b>                       | <b>10</b> |
| <b>Progress with the 2008/09 Audit</b>  | <b>11</b> |

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## 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.
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# Introduction

- 1 We issued our initial audit plan for 2008/09 to the Audit Committee, 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 14 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.

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## Assertions

- 6** When considering the risk of material misstatement we consider what the Director of Corporate Resources is stating when she signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which present 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.

## 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 the following.
- Income and Expenditure items.
  - Balance Sheet items.
  - Disclosures and presentational elements of the financial statements.
- 8 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     Assertions**

| <b>Assertion</b>         | <b>Applicable to</b>                              | <b>Definition</b>   |
|--------------------------|---|---|
| Accuracy                 | Income and Expenditure, Disclosure                | Is it recorded at the right amount and are the details right? |
| Classification           | Income and Expenditure, Disclosure                | Is it in the right place in the accounts?                     |
| Completeness             | Income and Expenditure, Balance Sheet, Disclosure | Is it all there?  |
| Cut off                  | Income and Expenditure                            | Is it in the right year?                                      |
| Existence                | Balance Sheet                                     | Does the asset or liability exist?                            |
| Occurrence               | Income and Expenditure, Disclosure                | Has the item of expenditure or income happened?               |
| Rights and Obligations   | Balance Sheet, Disclosure                         | Does it belong to the body?                                   |
| Valuation and Allocation | Balance Sheet, Disclosure                         | Is it worth the reported amount?                              |

# 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  |
|---|---|---|
| The classification in the Income and Expenditure account has not complied with the Best Value Accounting Code of Practice (BVACOP) with material errors noted in the Service Expenditure Analysis (SEA) for both 2007/08 and 2006/07. | Classification                                    | The authority has completed a review of the SEA and variance analysis will also be completed. These will be reviewed and compliance with BVACOP checked during the audit.   |
| The classification of Reserves in the Balance Sheet had material errors in the presentation in 2007/08.   | Classification                                    | Concentration on high value movements during 2008/09 in the Capital Adjustment Account, Revaluation Reserve and Job Evaluation Reserve. Consideration of the approval processes for any high value new Reserves and movements.  |
| New disclosures required by the Statement of Recognised Practice (SORP) have previously led to material errors in disclosure eg Financial Instruments introduced in 2007/08.  | Classification                                    | Review the new requirements of the SORP 2008 to assess the authority's compliance.  |
| Economic downturn may affect the carrying value of assets held and an increase in bad debts.  | Valuation and Allocation, Rights and Obligations. | To test the basis of any changes to asset valuations and provision for bad debts. The authority has carried out a full revaluation of their land and building assets in 2008/09. The results of this, and the quality arrangement processes in place to assess and explain key variances will be reviewed and tested. |

## Identification of specific risks

| Risk Area  | Assertions            | Audit response  |
|--|-----------------------|---|
| <p>The Council will need to prepare accounts in line with the requirements of International Financial Reporting Standards from 2010/11. This means that the 2009/10 comparative figures will need to be restated. The transition date for IFRS for local government is 31 March 2009. Carlisle City Council will need to identify any changes to the 2008/09 figures which are required to restate the comparative figures for the 2009/10 accounts.</p> | <p>All assertions</p> | <p>Liaise with the Council on their progress towards IFRS in line with the approach set out in the Audit Commission's briefing paper of October 2007 - The move to International Financial Reporting Standards - How can your auditor help?</p> |

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

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# Key milestones and deadlines

- 13 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.
- 14 During 2007/08 we agreed a protocol for working arrangements between us, the accountancy staff and internal audit. The protocol was discussed in April 2009 and an updated copy will be presented to the Audit Committee in June 2009.
- 15 During the audit we will meet with the key contact and review the status of all queries on a fortnightly basis. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

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**Table 3 Proposed timetable**

| <b>Task</b>  | <b>Deadline</b>                            |
|--|--|
| Control and early substantive testing                                  | March 2009                                 |
| Receipt of accounts  | By 30 June 2009                            |
| Forwarding of audit working papers to the auditor                      | By 30 June 2009                            |
| Start of detailed testing  | Monday 29 June 2009                        |
| Progress meetings  | Fortnightly during the period of the audit |
| Present report to those charged with governance at the Audit committee | 25 September 2009                          |
| Issue of opinion   | By 30 September 2009                       |

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# 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 £125,423. Having considered the above risks I remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee.

## Progress with the 2008/09 Audit

- 17** Currently the 2008/09 audit is in progress. The audit team has updated the risk assessment of Carlisle City Council, and we have updated our knowledge and understanding of the material systems operated by the Council. As part of the pre-statements audit we have also identified and tested key controls on which we can place reliance.
- 18** We have held a meeting with finance staff to discuss potential issues with the final accounts and to agree timescales and working papers to be provided.
- 19** The approach to Use of Resources is changing for 2008/09. The assessment is much more focussed on outcomes. The process is a rounded judgement reviewing arrangements against new and more challenging criteria. The assessment draws on our existing knowledge of the Council as well as update information provided by the Council.
- 20** The timetables for the Use of Resources work are now earlier and we are currently completing our initial assessment for discussion with management in early July.
- 21** The Audit Commission held a workshop on the new approach to Use of Resources in February, which was attended by officers from the Council. The guidance available to Audit Commission staff is also available to audited bodies, via <http://www.audit-commission.gov.uk/useofresources/guidance/index.htm>.

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# 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.

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