Opinion Plan

Herefordshire Council

Audit 2008/09

May 2009

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Status of our reports

Introduction

1 We issued our initial audit plan for 2008/09 to the Audit and Corporate Governance Committee on 20 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 early in the financial year and 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.

Identifying opinion audit risks

Organisation level risks

4 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

5 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.

6 Material systems are those which produce material figures in the annual financial statements. We have identified that the Council has 16 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.

7 We also need to understand how the Council identifies and captures events and conditions which are material to the financial statements, eg depreciation and the financial reporting process used to prepare the financial statements.

Assertions

8 When considering the risk of material misstatement we consider what the Director of Resources 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.

9 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.

10 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

Question	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 AND OBLIGATIONS	RIGHTS AND OBLIGATIONS
Is it worth it?		VALUATION AND ALLOCATION	VALUATION AND ALLOCATION

Identification of significant risks

11 We have now substantially completed our pre-statement risk assessment process and have identified a number of specific risks that are appropriate to the current opinion audit. We have set out below the most significant of these risks.

- The 2007/08 letter drew your attention to weaknesses in the ISIS nursing home payments system. Internal audit work in 2008/09 identified continuing weaknesses in the system for paying independent care providers and they reported an 'unsatisfactory level of control' opinion to the Audit and Corporate Governance Committee in January 2009.
- Property values have fallen significantly in 2008/09 in a number of sectors. This presents a risk that the brought forward balance of fixed assets on the Council's balance sheet might no longer materially accurately reflect their net realisable value.
- Weaknesses in the authorisation of some creditor payments have meant that we asked Internal Audit to carry out additional substantive testing in 2007/08. Internal Audit has identified further authorisation weaknesses in 2008/09. These present a risk of fraud.

12 Table 2 below identifies the assertions that are relevant to these risks and the work that we intend to do to address them.

Table 2 Significant risks

Significant opinion risks identified

Risk Area	Assertions	Audit response
Payments to independent care providers	Accuracy Completeness Cut-off Occurrence	Review internal audit work, re-evaluate the risks of material misstatement and design and carry out substantive tests to address any such risks identified.
Fall in property values	Valuation	Discuss and agree the valuation approach with finance and property services officers prior to the preparation of accounts.
Creditor Payments	Occurrence Accuracy	Internal Audit has agreed to carry out substantive testing of creditors.

Testing strategy

13 We will produce a detailed internal testing strategy that addresses the significant risks above, the other specific risks we have identified and the inherent risks for all material accounting entries. The strategy will consist of testing key controls, substantive tests of transaction streams and material account balances at year-end.

14 Our testing can be carried out both before and after the draft financial statements have been produced (pre and post-statement testing). Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit.

15 We have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Fixed Assets - tests of completeness, existence, rights and obligations and valuation.
- Housing benefit awards.
- Contingent liabilities.
- Collection fund - discounts, exemptions and precepts.
- Government general grants.
- Minimum revenue provision.
- FRS17 pension costs, assets and liabilities.
- Related party transactions - tests of completeness.

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

Audit fees

17 In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £169,575. Having considered the above risks I remain satisfied that the original estimate was appropriate and no adjustment is therefore required to the fee.

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