

# Audit Opinion Plan

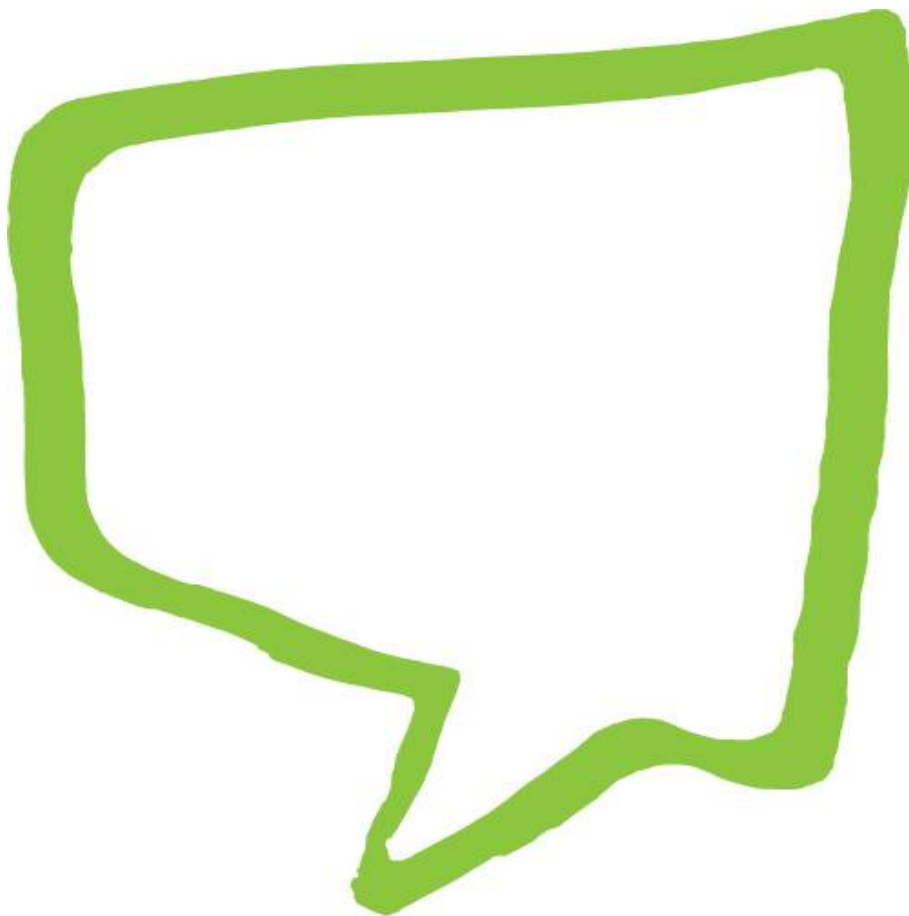
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London Borough of Brent

Audit 2008/09

April 2009



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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 on 25 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. 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 13 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 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 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:
- Operating Cost Statement 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**

Meaning	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 and Obligations	Rights and Obligations
Is it worth it?		Valuation and Allocation	Valuation and 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
In 2007/08 a periodic review of the accounting treatment of foundation schools was not undertaken.	Rights & Obligations	We will review the Council's response to our recommendation and whether the Council have put in place arrangements to carry out periodic reviews of the status of foundation schools, particularly when there are any changes/new schools added to the portfolio.
Last year we recommended that the Council should maintain detailed listings of infrastructure assets to aid compliance with new accounting standards being introduced from 2010/11.	Completeness Existence Valuation & Allocation	We will review the progress the Council has made in analysing its infrastructure assets to meet future years requirements.
Payroll reconciliations are not being undertaken on a regular basis since the introduction of the payroll system in 2007/08.	Accuracy Classification Completeness Cut-Off Occurrence	We will review the arrangements and controls around payroll transactions. We will review the year end payroll reconciliation.
Our review of Internal Audit highlighted that the Council are not undertaking regular reconciliations between the Abacus system maintained in Adult Care and the general ledger.	Accuracy Classification Completeness Cut-Off Occurrence	We will review the year end abacus reconciliation.

## Identification of specific risks

Risk Area	Assertions	Audit response
<p>The current economic climate increases the likelihood of impairment occurring to Council fixed assets and financial instruments.</p>	<p>Valuation &amp; Allocation</p>	<p>We will review whether the Council has taken appropriate steps to identify potential impairments and if they have occurred, ensure that these have been accounted for in accordance with FRS 11 Impairments of Fixed Assets and Goodwill, and the SORP.</p>
<p>The Council holds investments in Icelandic banks that are now in default. The Council will need to review whether to impair the investments as at 31 March 2009 and, if so, by what amount. In any event, the Council will need to consider the scope and nature of disclosures.</p>	<p>Valuation &amp; Allocation</p>	<p>We will review the approach taken by the Council. We will undertake work to substantiate any estimate of impairment and to assess the accuracy and reasonableness of the disclosures made.</p>
<p>The Council is awaiting a final decision on the London Mutual Insurance Company (LAML) appeal.</p> <p>A contingent liability in relation to the case was disclosed in the 2007/08 Statement of Accounts. Once the Court of Appeal has delivered its judgement, the Council will need to revisit its accounting treatment (including consideration of if a provision/ liability need to be accrued).</p>	<p>Completeness Rights and obligations Valuations and allocations</p>	<p>We will review the Council's response to the Court of Appeal judgement and in particular will focus on the impact on the Statement of Accounts.</p>

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# 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. We have identified the following areas where substantive testing could be carried out early.
  - Review of accounting policies.
  - Fixed Assets – confirmation of ownership and existence.
  - Treasury management – initial sample testing of transactions.
  - Year end feeder system reconciliations.
- 13 Where other early testing is identified as being possible this will be discussed with officers.



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# Key milestones and deadlines

- 14 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.
- 15 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 16 Every week, 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.

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**Table 3 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and substantive testing	May 2009
Receipt of accounts	30 June 2009
Provision of audit working papers to the auditor	30 June 2009
Start of detailed testing	July 2009
Progress meetings during final accounts audit	Weekly
Present report to those charged with governance at the Audit committee	September 2009 (date to be confirmed)
Issue of opinion	By 30 September 2009

# The audit team

17 The key members of the audit team for the 2008/09 audit are shown in the table below.

**Table 4     Audit team**

Name	Contact details	Responsibilities
Andrea White District Auditor	<a href="mailto:a-white@audit-commission.gov.uk">a-white@audit-commission.gov.uk</a> 0844 798 5784	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Shahida Nasim Senior Audit Manager	<a href="mailto:s-nasim@audit-commission.gov.uk">s-nasim@audit-commission.gov.uk</a> 0844 798 2885	Overall co-ordination of the different elements of audit work. Key point of contact for the Divisional Director of Corporate Finance.
Kemi Oluwole Audit Manager	<a href="mailto:k-oluwole@audit-commission.gov.uk">k-oluwole@audit-commission.gov.uk</a> 0844 798 2666	Responsible for the day-to-day management of the audit. Key point of contact for the Head of Finance.

## Quality of service

- 18 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Les Kidner, London Head of Operations.
- 19 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

# Audit fees

**20** In our original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £317,500. Having considered the above risks, and subject to the Council putting the appropriate year end control arrangements in place for the payroll system, we remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee at this stage. However, we will keep the fee under review as the opinion audit progresses. If we need to amend the fee subsequently, we will first discuss it with you.

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# The Audit Commission

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