

Audit Opinion Plan

Chorley Borough Council
Audit 2008/09

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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 26 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 we are currently undertaking our opinion audit.
- 2 For our 2008/09 opinion audit 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.

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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 10 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

- 7 When considering the risk of material misstatement we consider what the Assistant Chief Executive (Business Transformation) is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which fairly presents 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

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

9 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 The Assertions

Meaning	Income & Expenditure Account	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

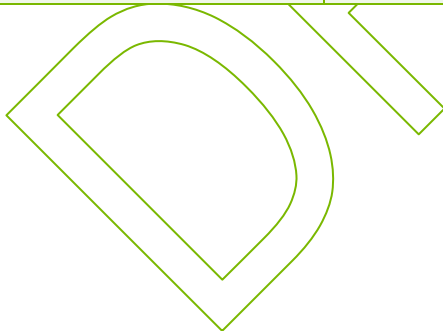
Identification of specific risks

10 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
Preparation of the accounts by the Shared Financial Services function.	All	We will maintain a continuing dialogue with officers and work with them to ensure we are aware of any potential issues.
Impact of the current economic climate.	Cut-off Valuation and Allocation	We will carry out substantive testing to ensure income and expenditure is recorded in the correct year. We will carry out substantive testing to gain assurance over the valuation and impairment of fixed assets in the financial statements.
Impact of Chorley's £2m 'at risk' investment in Landsbanki	All	We will ensure that the accounting entries in respect of this investment correctly reflect the advice in LAAP bulletins.



Testing strategy

- 11 On the basis of risks identified above we produce a testing strategy which consists of a range of tests. These include a mixture of testing key controls and substantive tests of transaction streams and material account balances at year end.
- 12 Our testing is carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).

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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** We have agreed with you a schedule of working papers required to support the entries in the financial statements.
- 15** 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 and complexity of issues arising.

Table 3 Proposed timetable

Task	Deadline
Control and early substantive testing	May 2009
Receipt of accounts	30 June 2009
Forwarding of audit working papers to the auditor	30 June 2009
Start of detailed testing	late July 2009
Progress meetings	Weekly
Clearance meeting to discuss final queries	mid September 2009
Present report to those charged with governance at the Audit Committee	24 September 2009
Issue of audit opinion and VFM conclusion	By 30 September 2009

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 £109,000 plus £6,000 for the inspection element of our work. However, during 2008/09 we had to undertake extra audit work in relation to the Council's investment in Landsbanki. As a result, we need to increase our audit fee slightly by £1,800. This increase has been agreed with the Assistant Chief Executive (Business Transformation).

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