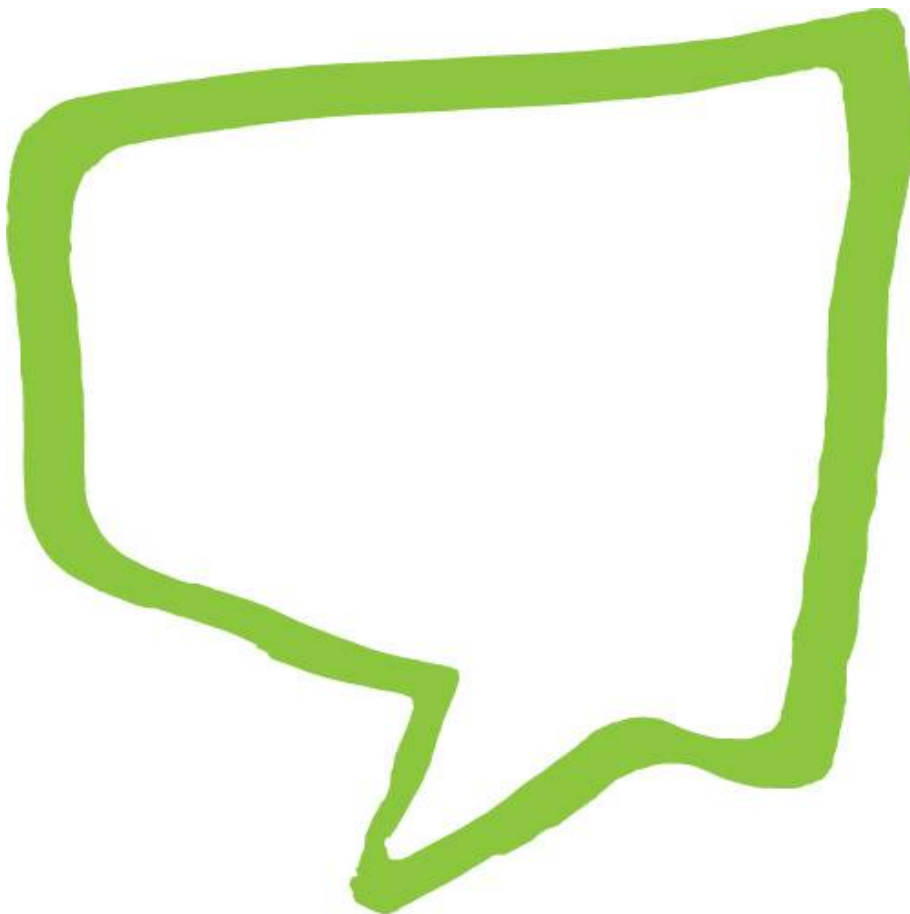


Audit Opinion Plan

South Oxfordshire District Council

Audit 2008/09

March 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 and Governance Committee in March 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 better 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 based on our 2007/08 opinion, where we encountered significant problems. We gave a planned late opinion on 12 November 2008, and levied an additional audit fee of £43,372 (2006/07 additional fee £15,000).

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 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 nine 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.
- 6 Additional work had to be carried out in 2007/08 on creditor payments as we were unable to rely only on controls within the system for our assurance following introduction of the new system.

Assertions

- 7 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,

Identifying opinion audit risks

measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

- 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 Statement items;
 - Balance Sheet items; and
 - Disclosures and presentational elements of the financial statements.
- 9 We will not be in a position to identify which elements we are seeking specific assurance from you until we have completed our work on material systems.
- 10 However, in light of the problems with the financial statements both in 2006/07 and 2007/08 we consider the risks of material error within the statements for 2008/09 to be high, which impacts on our testing strategy and the amount of work we have to do to gain assurance for our opinion.

Testing strategy

- 11 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. As a result of our assessment of high risk of material error within the statements, we will examine more transactions within any balance to gain assurance for our opinion.
- 12 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 13 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. Taking into account the issues from our 2007/08 opinion, it is not likely that we will undertake any significant early testing. However we may be able to carry out some of the following alongside our review of material systems:
 - Review of accounting policies.
 - Bank reconciliation.
 - Fixed Assets – confirmation of ownership and existence.
 - Year end feeder system reconciliations.
 - Review of Impairments.

We will discuss any opportunities for early testing with officers.

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 summarised in table 1 below. We will agree the detail of the timetable with your officers.

Table 1 Proposed timetable

Task	Deadline
Control and early substantive testing	March/April 2009
Receipt of accounts	By 30 June 2009
Detailed testing	August/September 2009
Present report to those charged with governance at the Audit committee	29 September 2009
Issue of opinion	By 30 September 2009

Audit fees

- 15 In the original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £91,218. Having considered the above risks, I am not satisfied that the original estimate was entirely appropriate. I have therefore discussed this with the Chief Executive and Executive Director and agreed an adjustment of £19,943 to the fee at this stage. This gives a revised fee for the opinion of £111,161.

The Audit Commission

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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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