

# Audit Opinion Plan

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Yorkshire and Humber Regional Assembly

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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>7</b>
<b>Key milestones and deadlines</b>	<b>8</b>
<b>Audit fees</b>	<b>9</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 Regional Executive Board on 5 March 2009, 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 before the end 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 Assembly's activities;
  - identifying the business risks facing the Assembly, including assessing your own risk management arrangements;
  - considering the financial performance of the Assembly; 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 Assembly'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 Assembly has six material systems.
- General Ledger
  - Debtors
  - Creditors
  - Income
  - Payroll
  - Cash and Bank
- 6 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 Assembly 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 Honorary Treasurer is stating when she 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 body 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.
- 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;
  - 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.

# 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 1 Specific risks**

Specific opinion risks identified

<b>Risk Area</b>	<b>Assertions</b>	<b>Audit response</b>
As the Assembly's cash is held by WMDC, there is no external confirmation of the balance and the Assembly do not carry out a reconciliation.	Completeness Existence Rights and obligations Valuation & allocation	Rely on testing of the WMDC bank reconciliation as part of the work done by the WMDC audit team.
Creditors testing in 2006/07 identified weaknesses in the key controls. This is a risk for the Balance Sheet and for the Income and Expenditure Account.	Accuracy Classification Completeness Cut-off Occurrence Existence Rights and obligations Valuation & allocation	Substantive testing of year end balance. Analytical review of expenditure.
Receipts in advance form a material balance at the year end. These are not system generated.	Completeness Existence Rights and obligations Valuation & allocation	Substantive testing.

# Testing strategy

- 11 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.
- 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 aim to complete some substantive testing earlier in the year before the financial statements are available for audit. For this year, we have not identified any areas where substantive testing could be carried out early.
- 14 Where other early testing is identified as being possible this will be discussed with officers.

# Key milestones and deadlines

- 15 The Assembly 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.
- 16 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 17 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.

**Table 2 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	October 2008
Receipt of accounts	June 2009
Forwarding of audit working papers to the auditor	15 June 2009
Start of detailed testing	15 June 2009
Present report to those charged with governance at the Local Government Yorkshire and Humber Leaders' Board	September 2009
Issue of opinion	By 30 September 2009

# Audit fees

- 18 In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £17,000. Having considered the above risks I remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee.

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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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