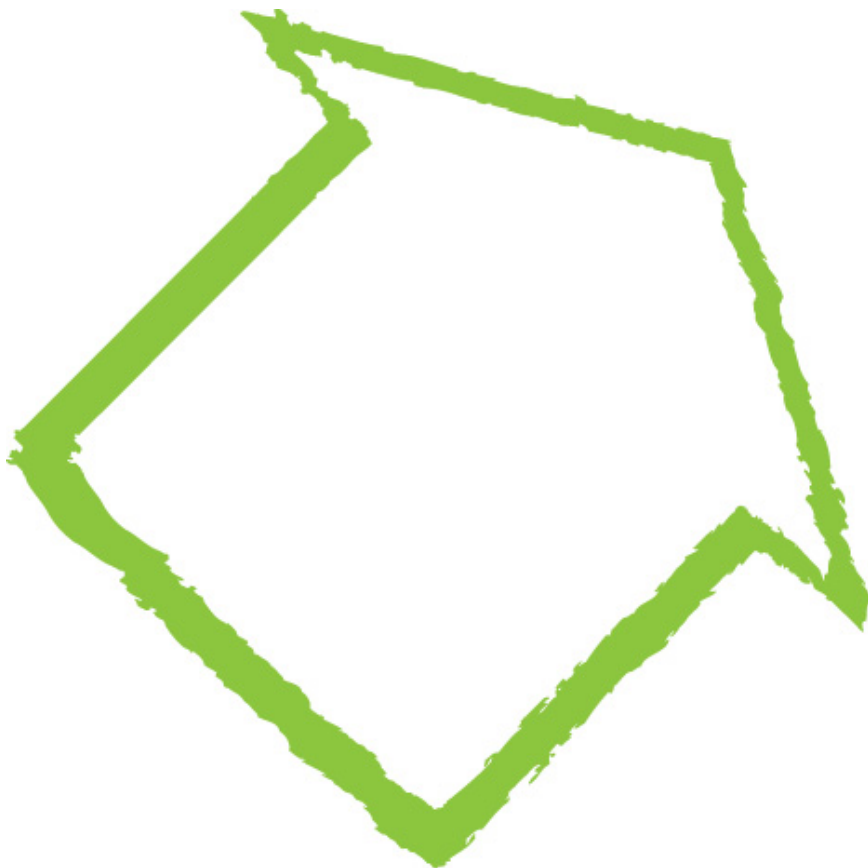


Audit Opinion Plan

Norwich City Council

Audit 2008/09

July 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 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 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.

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'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 14 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 - for example, depreciation.
 - The financial reporting process used to prepare the financial statements.

Assertions

- 6** When considering the risk of material misstatement we consider what the Head of Finance is stating when he signs the financial statements. The Council's management is responsible for the preparation and presentation of financial statements which present fairly 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:

- Income and expenditure (revenue) 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.

Assertion		Revenue account and notes	Balance sheet and notes	Other disclosure notes
Accuracy	Is it recorded at the right amount and are the details right?	√		√
Classification	Is it in the right place in the accounts?	√		√
Completeness	Is it all there?	√	√	√
Cut-off	Is it in the right year?	√		
Existence	Is it real, does it exist?		√	
Occurrence	Has it happened?	√		√
Rights and obligations	Does it belong to the Council? Are they entitled to use it?		√	√
Valuation and allocation	Is it worth it?		√	√

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 1 Specific risks

Specific opinion risks identified

Risk Area	Residual risk for 2008/09?	Audit response
System weaknesses/issues were reported in 2006/07 and 2007/08. These control weaknesses have reduced our inability to seek controls reliance on a cyclical basis as would be our normal audit approach. This has therefore resulted in an increased level of systems assessment work in 2008/09 than previously planned.	Yes	We have had to increase the level of controls testing for 2008/09.
Our systems work in 2008/09 has detected some ongoing weaknesses in both the design and, on testing, the operation of some controls which have limited our ability to rely on systems controls to provide audit assurance.	Yes	Additional substantive audit testing has been planned to address the gaps in controls assurance in 2008/09.
Our triennial review of Internal Audit detected some weaknesses in arrangements resulting in limitations in our ability to place full reliance on Internal Audit's work.	Yes	We have been unable to place reliance on controls work carried out by Internal Audit, although findings from their reviews have been considered in terms of the risks for our audit opinion.
The accounts opinion for 2007/08 was qualified in respect of the prior year cash flow comparatives. Whilst this represented significant progress from the 2006/07 disclaimed opinion, the audit was protracted due to the number of audit issues arising and there were many material and significant amendments to the accounts provided for audit, as reported in our Annual Governance and Regularity Reports.	Yes	Whilst we planned to rely on controls where appropriate, a relatively substantive audit approach will be adopted in 2008/09 to ensure that material errors in the 2007/08 accounts have not recurred.

Identification of specific risks

Risk Area	Residual risk for 2008/09?	Audit response
<p>Working papers were inadequate in 2007/08 leading to a protracted audit whilst sufficient, appropriate audit evidence was gathered.</p>	<p>Yes</p>	<p>We recognise that the Council is continuing to focus on this area. However, should the substance of the audit evidence be unsatisfactory this will increase the amount of substantive audit work that we need to carry out. We have fed back some initial concerns on the working paper files from our initial brief overview to the finance team.</p>
<p>In response to concerns arising from the inappropriate allocation of homes to council staff at Goldsmith Street/Greyhound Opening, work was undertaken to assess whether council homes were being appropriately and effectively allocated in accordance with agreed policies and procedures, and whether there were additional audit risks that we needed to address.</p>	<p>Risk addressed March 2009</p>	<p>No further work required at this time although we have made recommendations to strengthen processes and controls. However, the work carried out in March 2009 was not included in our original audit fee.</p>

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).

Wherever possible, we complete some substantive testing earlier in the year before the financial statements are available for audit. Given other work ongoing at the Council we have not been in a position to carry out any significant early substantive testing. We will keep this under review for future years.

Key milestones and deadlines

- 12** 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.
- 13** We agreed with you a schedule of working papers required to support the entries in the financial statements on 5 March 2009.
- 14** Queries will be raised via the key contacts throughout the course of the fieldwork as necessary, although we will endeavour to avoid an undue level of disruptions by ensuring our audit team queries are as 'joined-up' as possible. At the end of the second week of audit fieldwork, we will meet with the key contact and review the status of all queries from the first tranche of our audit work. If appropriate, we will then meet at a different frequency depending upon the need and the number of issues arising.
- 15** We will present our Annual Governance Report to the Audit Committee at the 24 September 2009 meeting, and will issue our opinion 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 £155,375. Having considered the above risks I consider an adjustment is required to the fee. Our current estimate is that the fee should increase by £38,000 (excluding VAT), and I have arranged for this to be billed in two instalments commencing in August 2009.
- 17** I may, of course, need to revisit this conclusion if additional unforeseen risks arise during the completion of our work.

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