

# Audit Opinion Plan

**Kent Police Authority**  
**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 & Finance Committee in 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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## Materiality

- 3 The audit of the accounts seeks to ensure that the accounts are materially correct and presents fairly a view of the financial transactions of the Authority in 2008/09. Materiality is defined in auditing standards as "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement."
- 4 Our materiality for the audit was set at £3.7million. We also set, in accordance with International standards of auditing, a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold was set at £37k.

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## Organisation level risks

- 5 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 Authorities activities;
  - identifying the business risks facing the Authority, including assessing your own risk management arrangements;
  - considering the financial performance of the Authority; and
  - assessing internal control - including reviewing the control environment, the IT control environment and internal audit.

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## Information system risks

- 6 To comply with ISA (UK&I) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Authority's information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 7 Material systems are those which produce material figures in the annual financial statements. We have identified that the Authority has 6 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.

## Identifying opinion audit risks

- How the Authority 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.
- 8 Our work has concluded that controls assurance has been gained for all but one system. It has been identified that the controls were not operating effectively during the earlier part of the 2008/09 year in the Fixed Asset system. We are satisfied that controls have been established since October 2008 but a substantive testing approach will be more efficient in 2008/09 to gain assurance for our audit opinion.

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## Assertions

- 9 The Treasurer is responsible for the preparation and presentation of financial statements which present a fair view of the nature and activity of the Authority 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.
- 10 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.
- 11 The following table details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

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**Table 1     Assertions**

Description	I&E Account	Balance Sheet	Disclosures
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	

## Identifying opinion audit risks

<b>Description</b>	<b>I&amp;E Account</b>	<b>Balance Sheet</b>	<b>Disclosures</b>
Has it happened?	Occurrence		Occurrence
Does it belong to the body? Are they entitled to use it?		Rights & Obligations	Rights & Obligations
Is it worth it?		Valuation & Allocation	Valuation & Allocation

# Identification of specific risks

12 Our planning of the opinion audit has identified the following potential risk areas which we will specifically review.

**Table 2 Specific risks**

Specific opinion risks identified

Risk Area	Assertions	Audit response
For a number of the material financial systems there is no effective control over the year end cut off. This is not an unexpected situation but does mean that we have to carry out specific audit testing for cut off in those systems.	Cut off	We will undertake sample testing of March - May 09 receipts and payments to confirm the amounts have been allocated to the correct financial year.
Impairment of investments: LAAP Bulletin 82 should be followed for the accounting treatment of the Icelandic Bank investments.	All assertions	We will review the accounting entries to ensure that treatment in the financial statements is in line with LAAP.
The Statement of Recommended Practice (SoRP) remodels the Fixed Asset note to the accounts. This has led to a change in the treatment of impairments.	Balance Sheet assertions	We will review the Fixed Asset note to confirm the accounting treatment of impairments.
PFI schemes: The Authority has entered into 2 long term contractual agreements under PFI.	Balance Sheet assertions	We will review the entries in the financial statements relating to PFI and confirm the Authority's assumption that the schemes remain off Balance Sheet.
Cash and bank balance: There were errors identified in 2007/08 of the treatment of covert bank accounts.	Balance Sheet assertions	We will audit the year end bank reconciliation and obtain direct confirmation of all balances.

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# Testing strategy

- 13 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.
- 14 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 will complete some substantive testing earlier in the year before the financial statements are available for audit. Due to the early audit of the financial statements we have not identified any areas where substantive testing could be carried out early.

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# Key milestones and deadlines

- 15 The Authority is required to prepare and approve the financial statements by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. As with last year we have agreed to meet the Authority's earlier timetable and issue a draft Annual Governance Report to the June Audit & Finance Committee. 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.

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**Table 3 Proposed timetable**

<b>Task</b>	<b>Deadline</b>
Control and early substantive testing	April-May 2009
Receipt of accounts	5 June 2009
Forwarding of audit working papers to the auditor	5 June 2009
Start of detailed testing	8 June 2009
Progress meetings	Weekly
Draft AGR meeting	22 June 2009
Present report to those charged with governance at the Audit committee	24 June 2009
Issue of opinion	By 24 July 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 £71,076. Having considered the above risks I remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee.