

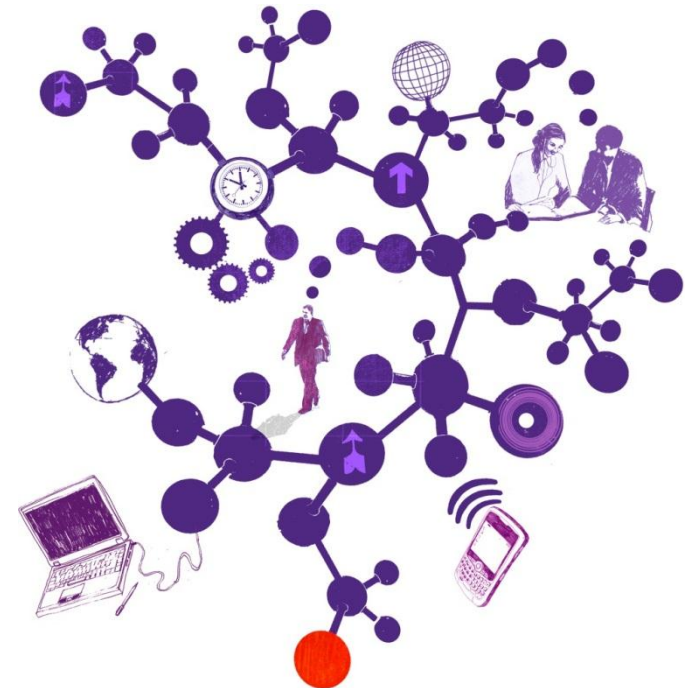
The Audit Plan for Bath and North East Somerset Council

Year ended 31 March 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial management

- The Council faces significant pressure on its finances and has introduced detailed savings as part of its medium term service resource plans. At the same time, the Council is seeking to invest in social care and school buildings linked to its Corporate objective of promoting independence and positive lives.

2. Economic development

- Over £81.5 million has been budgeted for economic regeneration including town centre redevelopment and improvement in highways and transport infrastructure. In addition the Regional Growth Fund should enable further investment locally to promote economic development.

3. Working with communities and partners

- The Council is working with Partners such as Sirona, the Community Interest Company, and the Primary Care Trust during a period of change in the NHS to provide health and social care. A key change being the creation of Clinical Commissioning Groups. In addition, the Council is seeking to build capacity with community groups to improve the quality of life in neighbourhoods.

4. Academies

- The Council are supporting the transfer of schools to academy status. In the medium term this will impact on the operation of the local education authority.

Our response

- Linked to our work to form a conclusion on your arrangements to ensure value for money and financial resilience, we will review the Council's processes for developing savings and financial plans.

- Through our meetings with officers we will monitor progress and continue to review arrangements for managing the projects.

- We will continue to review joint working and the management of the Sirona contract. As part of our work to support the value for money conclusion we will meet officers and discuss progress with engagement with partners.

- We will review the accounting entries arising from schools becoming academy and through meetings with officers monitor the impact on the operation of the Council.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

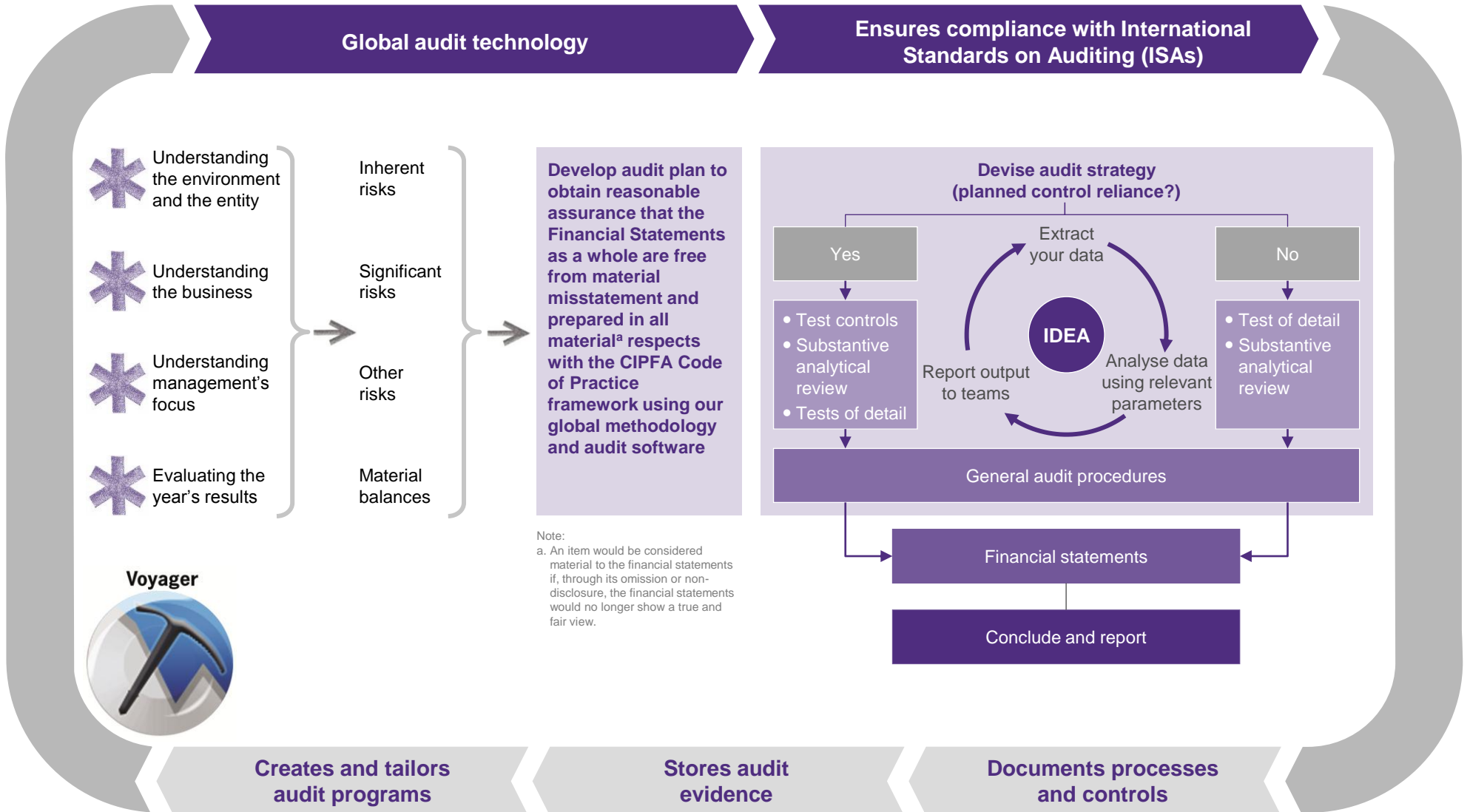
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Transfer of assets to Academies • Recognition of grant conditions and income 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the financial impact of changes, due to take effect in 2014, to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the financial settlement and legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	None		✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Payroll tax obligations understated. Employee remuneration accruals understated.	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Precepts and Levies	Yes	Council Tax	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		✗
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		✗
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant & other Government grants	Yes	Grant Income ⁹	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		✗
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		✗
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		✗
Inventories	No	Inventories	Low	None		✗
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Further work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls 	<ul style="list-style-type: none"> Controls testing including: <ul style="list-style-type: none"> Testing of the reconciliation process within the operating expenses system Substantive testing including: <ul style="list-style-type: none"> Review of payments to ensure that they are allocated to the correct year and correctly recognised
Employee remuneration	Payroll tax obligations understated Employee remuneration accruals understated.	<ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls 	<ul style="list-style-type: none"> Substantive testing including: <ul style="list-style-type: none"> Testing a sample of payments back to prime records e.g. contracts
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Documentation of accounting system processes Identifying, and walkthrough of, activities-level controls 	<ul style="list-style-type: none"> Substantive testing including: <ul style="list-style-type: none"> Testing a sample of payments back to prime records Completing analytical review procedures
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Documentation of accounting system processes Substantive testing to prove existence and ownership rights of significant assets 	<ul style="list-style-type: none"> Identifying, and walkthrough of, activities-level controls, this is a year end process Substantive testing including: <ul style="list-style-type: none"> Comparison of actual expenditure against plan

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none">Documentation of accounting system processes	<ul style="list-style-type: none">Identifying, and walkthrough of, activities-level controls, this is a year end process.Substantive testing including:<ul style="list-style-type: none">Reviewing revaluation reportEnsuring all assets have been revaluedAgreeing the accounting treatment of the revaluations

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls
- Completed initial work around the Value for Money Conclusion

	Work performed	Conclusion/ Summary
Internal audit	We have undertaken a high level review of internal audit's overall arrangements and deemed them to be adequate.	Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from internal audit work in contributing to an effective internal control environment at the Council. We are using the work of internal audit to inform our approach.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. The Plant Property and Equipment (PPE) walkthrough is incomplete as the information has not yet been loaded onto the fixed asset register.	No significant issues were noted . There was a control failure noted in the housing benefit and council tax system. This has been noted at the end of this report. Subject to the completion of the PPE system all other identified in-year internal controls were observed to have been implemented in accordance with our documented understanding.
Value for Money Conclusion	We have had meetings with a number of officers across the Council.	No issues have been identified to date. We will form an opinion on the VFM conclusion once the work has been completed.

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	We will form an opinion once the work has been completed
Journal entry controls	We have reviewed the Council's overall policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	We have not identified any material weaknesses that are likely to adversely impact on the Council's control environment or financial statements. Detailed testing of journals will be undertaken during our final accounts audit.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to the Corporate Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Review the Council's processes for developing savings and financial plans
- Monitor progress with economic development projects.
- Review joint working.
- Monitor the impact of schools becoming academies.
- Discuss any findings with senior management.

Logistics and our team



Date	Activity
November 2012	Planning meeting
December 2012 to March 2013	Interim site work
May 2013	The audit plan presented to Corporate Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Corporate Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
September 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Fees	2012/13	2011/12
	£	£
Council audit	164,039	273,398
Grant certification	24,550	46,158
Total	188,589	319,556

Fees for other services

Service	Fees 2012/13 to date
	£
Audit of Regional Growth Fund Government return (non audit commission grant certification new in 2012/13)	5,200
In 2012/13 we invoiced £15,950 relating to a contract agreed in 2011/12	

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit plan	Audit findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>A control failure was observed during the walkthrough of the Housing Benefit and Council Tax system.</p> <p>For all new claims for benefits where they are made in person by a claimant visiting the office, HB assessors review supporting information. The benefits team leader would do a secondary check of the claim to supporting documentation. This process has ceased since December 2012.</p> <p>We recommend reinstating the control for the 2013/14 financial year.</p>	Medium	<p>From December 2012, Customer Services were unable to access 'cap charts', necessary to collate information regarding new claims. This was because the necessary software licence had lapsed. This issue has been addressed.</p>	<p>This control has been reinstated from 2013-14 and has recommenced.</p>



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