

The Audit Plan for Bath and North East Somerset Council

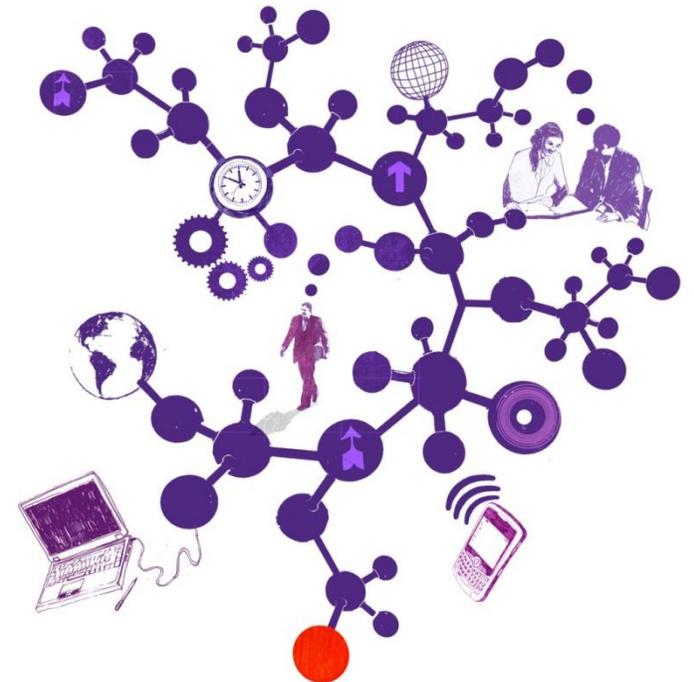
Year ended 31 March 2014

1 May 2014

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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. Maintaining Financial resilience

- In common with the local government sector nationally, the Council faces continuing pressure on its finances. Nationally the local government sector's funding will have fallen 40% during the current Parliament.

2. Working with partners in the provision of services

- The Council's Corporate Plan places emphasis on working with partners to achieve its priorities in a number of areas including promoting independence and building a strong economy. The latter is principally achieved through the West of England Local Enterprise Partnership.
- The Council works especially closely with the Clinical Commissioning Group in the delivery of adult social care..

3. Ensuring overall value for money

- The Council's Corporate Plan acknowledges that the Council faces some very tough challenges and will need to radically redesign and potentially reduce some types of service in response to the financial and policy climate.

4. City Deal

- 2013/14 sees the launch of the Business Rates Retention scheme as a form of local government funding. The Council has been working with other councils in the West of England to formulate a scheme (the City Deal) which will allow them to keep 100% of growth in business rates over the next 25 years to invest in projects.

5. Local Transport Schemes

- Bath & North East Somerset, Bristol, North Somerset and South Gloucestershire Councils are working in partnership to plan and deliver transport improvements in the West of England area. Substantial funding is being made available by the Government as well as funding from each of the councils.



Our response

- We will review the Council's medium term financial strategy, considering the assumptions and risks built into the Strategy.

- We will review how the Council is developing partnership working in the key area of social care. Specifically, how the Council is working with NHS partners to develop joint plans, linked to the 'Better Care Fund.

- We will review the Council's overall corporate arrangements for ensuring value for money in its use of resources.

- We have had, and will continue to have, discussions with officers on the City Deal.
- We will also continue to liaise with colleagues auditing the other West of England councils to ensure we have a co-ordinated audit approach.

- We will continue to discuss, with senior officers, progress on the transport schemes and ensure that risks are being managed, with appropriate governance arrangements put in place.
- We will continue to liaise with colleagues auditing the other West of England councils to ensure we have a coordinated audit approach to any work undertaken.

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 ('the code') and associated guidance.

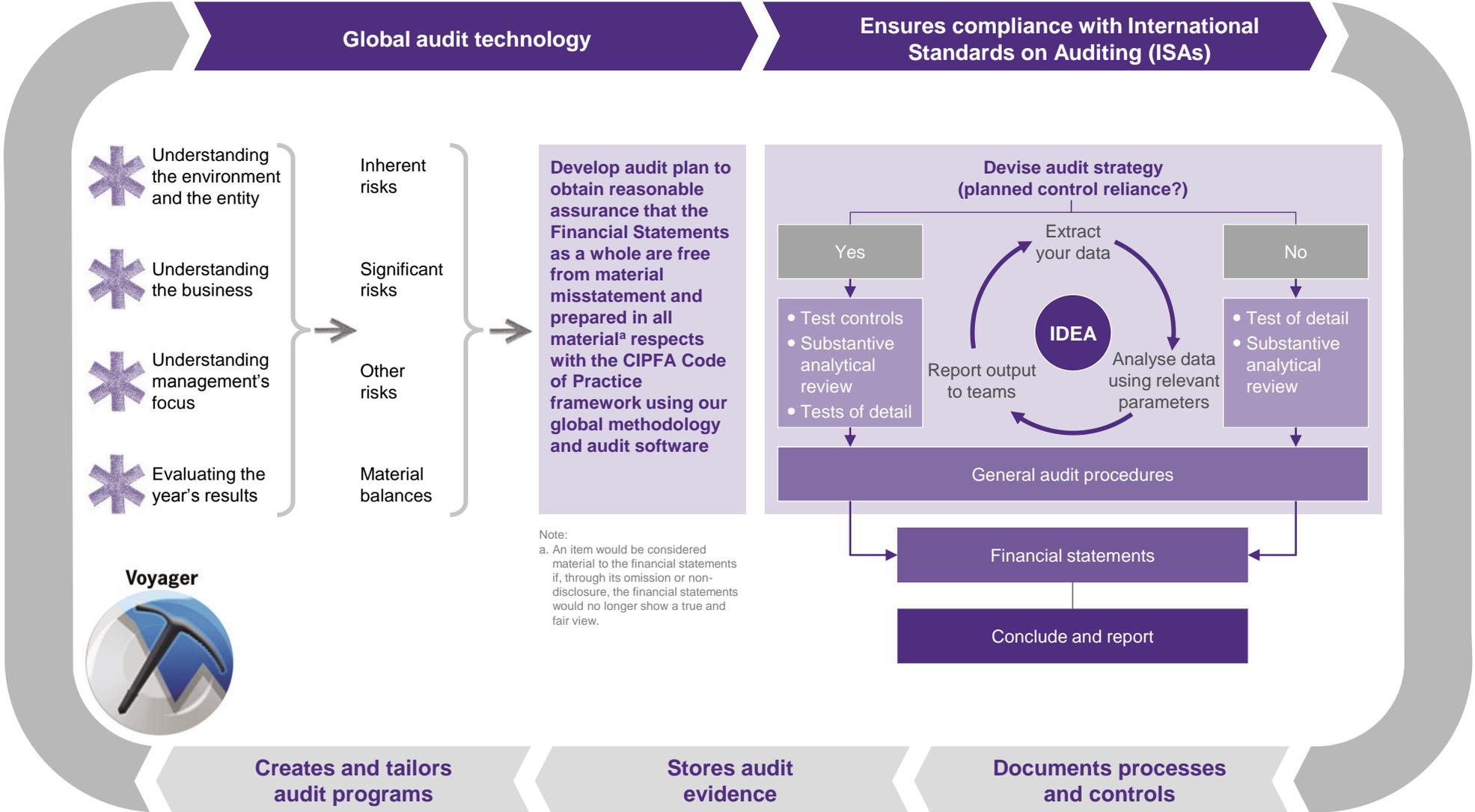
Developments and other requirements

| 1. Financial reporting | 2. Legislation | 3. Corporate governance | 4. Pensions | 5. Financial Pressures | 6. Other requirements |
|--|--|---|---|---|---|
| <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies | <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 | <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword | <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) | <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans | <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 |

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 and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance | <ul style="list-style-type: none"> • We will discuss the impact of the 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 review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management | <ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 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 |
|---|--|--|---|--|---|

Our audit approach



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• Testing of 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 identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| 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 | Substantive testing including: <ul style="list-style-type: none"> • Reviewing cashbook/ledger for unrecorded liabilities • Testing a sample of accruals to underlying documentation • Testing of sample of expenditure items to underlying documentation • Ensuring that members expenses have been appropriately disclosed |
| Employee remuneration | Employee remuneration accrual understated | <ul style="list-style-type: none"> • Documentation of accounting system processes • Identifying, and walkthrough of, activities-level controls | Substantive testing including: <ul style="list-style-type: none"> • Calculating a trend analysis across the year • Agreeing gross pay and employer national contributions to year end returns • Agreeing pension disclosures to actuarial reports |
| Welfare Expenditure | Welfare benefit expenditure 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"> • Agreement of draft claim to the general ledger and the benefits system • Completion of analytical procedures • Undertaking specific testing of claim details in line with the mandated approach and sample selection • Consider if any further work is appropriate given the claim guidance and the result of the work completed. |

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other reasonably possible risks | Description | Work completed to date | Further work planned |
|---------------------------------|-------------------------------------|--|--|
| Property, Plant & Equipment | PPE activity not valid | <ul style="list-style-type: none"> Documentation of accounting system processes | <ul style="list-style-type: none"> Identifying, and walkthrough of, activities-level controls Sample testing of PPE additions, confirming the ownership and depreciation method. Reviewing the capital programme for the year, identifying and explaining significant deviations. |
| 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 Confirming for assets that have been revalued in year, the qualifications and the work of the valuation expert. Ensuring all assets in the same class have been revalued Confirming that the accounting treatment of the revaluation was appropriate |

Value for money

Value for money

The Code 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

| VfM criteria | Focus of the criteria |
|---|--|
| The organisation has proper arrangements in place for securing financial resilience | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity |

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Assess the arrangements in place to ensure financial resilience in 2013/14 and the medium term;
- Review year end outturn, compare this to budget and consider the explanations provided for any material variances;
- Review the arrangements for establishing the Better Care Fund; and
- Discuss any findings with senior management and those charged with governance.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

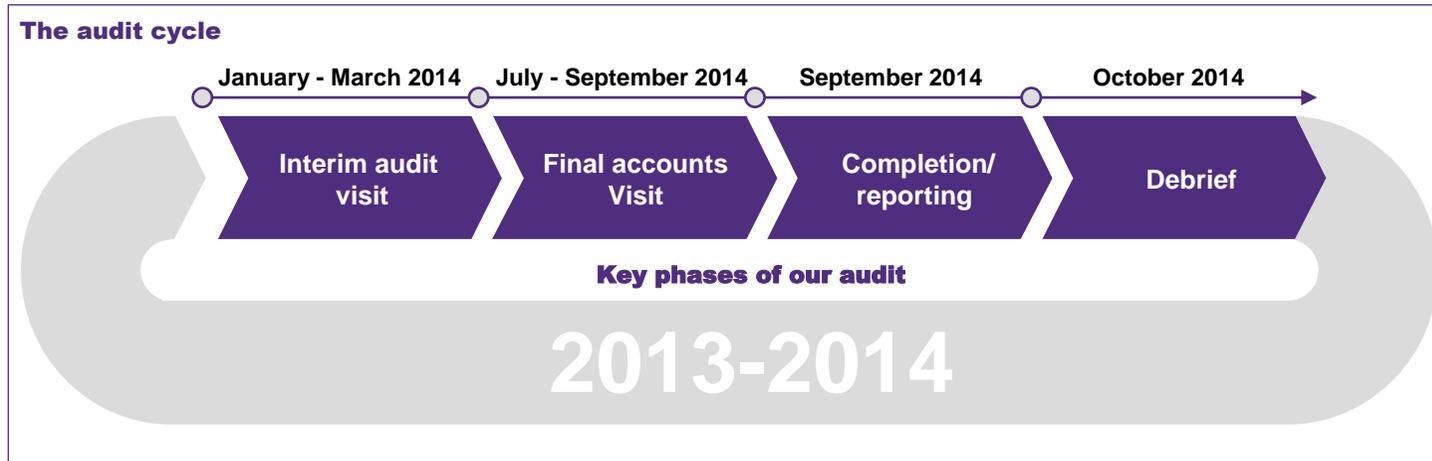
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed and findings | Conclusion |
|--|--|--|
| Internal audit | <p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> | <p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p> |
| Walkthrough testing | <p>With the exception of property, plant and equipment, we have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. We have been unable to complete the walkthrough in relation to plant, property and equipment as there are a number of year end processes.</p> <p>Internal controls have been implemented in accordance with our documented understanding. However, our work has identified one weakness in control, which we need to bring to your attention. Please see appendix A.</p> | <p>Our work only identified one weaknesses which does not impact on our audit approach.</p> |
| Review of information technology controls | <p>Our information systems specialist is due to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up any issues that were raised last year.</p> | <p>Our information system specialist will complete work to establish if there are any material weaknesses which are likely to adversely impact on the Authority's financial statements. The onsite work has been completed and a review of documentation is now being undertaken. The work is likely to be concluded by the end of May 2014.</p> |

Results of interim audit work

| | Work performed | Conclusion |
|----------------------------------|---|--|
| Journal entry controls | <p>We will review the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy to identify any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p> <p>We will undertake detailed testing on journal transactions recorded for the financial year, by extracting large and unusual entries for further review.</p> | <p>We will review journal policies and procedures. We will undertake detailed testing on journal transactions.</p> |
| Early substantive testing | <p>We have completed early testing for payroll and expenditure expenses in 2013-14 for April through to November 2013.</p> | <p>We will complete the remaining months' testing for payroll and operating expenses.</p> |
| Value for money | <p>Our review of financial resilience is in progress.</p> | <p>No issues have been identified to date that need to be brought to the attention of those charged with governance. Our work will continue up to the point at which the value for money conclusion is issued.</p> |

Key dates



| Date | Activity |
|-----------------------|--|
| January - March 2014 | Planning |
| January - March 2014 | Interim site visit |
| 13 May 2014 | Presentation of Audit Plan to Audit Committee |
| July - September 2014 | Audit fieldwork on statement of accounts and completion of VFM work |
| September 2014 | Audit findings clearance meeting with Director of Finance |
| September 2014 | Report audit findings to those charged with governance (Audit Committee) |
| September 2014 | Sign financial statements opinion |

Fees and independence

Fees

| | £ |
|-----------------------------------|----------------|
| Council audit | 164,039 |
| Grant certification | 16,036 |
| Total fees (excluding VAT) | 180,075 |

Our fee assumptions include:

- 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

Fees for other services

| Service | £ |
|---------|-----|
| None | Nil |

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. This was also raised in 2012-13.</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 ceased in December 2012.</p> <p>We recommend reinstating the control for the 2014/15 financial year.</p> | Medium | | |



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