

# The Audit Plan for Bath and North East Somerset Council

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**Year ended 31 March 2017**

March 2017

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Dear Members of the Corporate Audit Committee

### **Audit Plan for Bath and North East Somerset for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Bath and North East Somerset Council, the Corporate Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Barrie Morris

Engagement Lead

#### **Chartered Accountants**

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# Understanding your business and key developments

## Developments

### Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

### Aequus

The Council formed Aequus Developments Ltd on 14 March 2016, so 2016/17 is the first year of operation. From our discussions with the Divisional Director: Business Support it is unlikely that group accounts will be required for 2016/17 due to the low level of activity in year.

### Virgin Care

In 2016 B&NES contracted with Virgin Care to deliver community health and care services from 1<sup>st</sup> April 2017. The services are currently being delivered by Sirona. We identified the awarding of the contract as an area of focus for our Value for Money work. However, our review of relevant reports suggests that this is not a significant risk area.

## Key challenges

### Local challenges

In 2016 Bristol, Bath & North East Somerset, and South Gloucestershire councils endorsed the West of England devolution deal. The devolution deal represents a significant change in the decision-making process for the West of England and we will maintain awareness of any developments.

An interim management team for the combined authority is currently in place. We understand that a mayoral election will be held in May 2017, after which, permanent appointments will be made.

### Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

## Key performance indicators

Measure	Value	Trend
Outturn revenue	£121.833m	↑
Outturn capital	£94.147m	↓

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier shutdown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

In anticipation of this requirement, the Council plans to have the draft 2016/17 accounts completed by 31<sup>st</sup> May. Our intention is to complete our audit by the end of June, although the accounts won't be formally approved until September.

## Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by 30 June 2017.
- We will review the processes put in place to deliver a balanced budget and medium term financial plan.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £8.207 million (being 1.9% of gross revenue expenditure). In the previous year, we determined materiality to be £7.284 million (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £410,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£2,500
Members' allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to the occurrence of other fees and charges and the existence of the associated receivables.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Documenting our understanding of management's controls over revenue recognition</li> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> </ul>
<b>Management over-ride of controls</b>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work undertaken</b></p> <ul style="list-style-type: none"> <li>• Detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries (for months 10 -12) for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul>
<p><b>Valuation of investment property</b></p>	<p>The Code requires that the investment property owned by the Council are revalued annually and are measured at their highest and best use. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<b>Valuation of pension fund net liability</b>	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	<b>Work planned:</b> <ul style="list-style-type: none"><li data-bbox="943 437 2150 528">• Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li><li data-bbox="943 544 2150 600">• Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li><li data-bbox="943 616 2150 643">• Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li><li data-bbox="943 659 2150 715">• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>



# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p><b>Work completed at interim audit:</b></p> <ul style="list-style-type: none"> <li>We documented our understanding of processes and key controls over the transaction cycle</li> <li>We undertook a walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>Testing of sample of payments for the first nine months of the year.</li> </ul> <p><b>Work planned at final audit:</b></p> <ul style="list-style-type: none"> <li>Search for unrecorded liabilities</li> <li>Review goods received but not invoiced and test as appropriate</li> <li>Assess the Council's accruals methodology and the reliability of estimates used</li> </ul>
Employee remuneration	Employee remuneration accruals are understated	<p><b>Work completed at interim audit:</b></p> <ul style="list-style-type: none"> <li>We documented our understanding of processes and key controls over the transaction cycle</li> <li>We undertook a walkthrough of the key controls to assess whether those controls are designed effectively</li> </ul> <p><b>Work planned at final audit:</b></p> <ul style="list-style-type: none"> <li>Review reconciliation of payroll costs to the general ledger</li> <li>Undertake an analytical review of monthly payroll trend</li> <li>Complete testing of a sample of payments back to prime records</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other risks identified (continued)

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Welfare benefit expenditure	Welfare benefit expenditure has been improperly computed	<p><b>Work completed at interim audit</b></p> <ul style="list-style-type: none"> <li>We documented our understanding of processes and key controls over the transaction cycle</li> <li>We undertook a walkthrough of the key controls to assess whether those controls are designed effectively</li> </ul> <p><b>Work planned at final audit:</b></p> <ul style="list-style-type: none"> <li>Reconciliation of the expenditure recorded in the accounts to the benefits system</li> <li>Reconciliation of the expenditure recorded in the accounts to the housing benefit claim</li> <li>Testing a sample of payments to individual claimants</li> </ul>
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim is to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>We will reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim is to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

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# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Intangible assets
- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Funds held on trust note

# Value for Money

## Background

The Code requires us to consider 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li><li>• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li><li>• Managing risks effectively and maintaining a sound system of internal control</li></ul>
Sustainable resource deployment	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li><li>• Managing and utilising assets effectively to support the delivery of strategic priorities</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
Working with partners and other third parties	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities</li><li>• Commissioning services effectively to support the delivery of strategic priorities</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified one significant risk which we are required to communicate to you. This is set out overleaf.

## **Reporting**

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.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

# Value for money (continued)

We set out below the significant risk that we have identified as a result of our initial risk assessment and the work we propose to address this risk.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Medium term financial plan</b> Following the publication of the three directorate plans, there is a gap of £47m for the three years from 2017/18. The strategic review identified £29m of savings, but further review has identified that around £2m of these savings won't be delivered.</p> <p>EY have helped the Council to identify a further £7m - £9m and following portfolio challenge meetings the total now identified is around £40m.</p> <p>The financial year 2017/18 is now balanced. For 2018/19 there is a shortfall of around £5m and for 2019/20 £2m. Both of these figures are before any council tax increases.</p>	<p>This links to the Councils arrangements for planning finances effectively to support the sustainable delivery of strategic priorities</p>	<p>We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.</p> <p>We will review monitoring arrangements and the action taken when plans are not being delivered.</p>

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.



# 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:

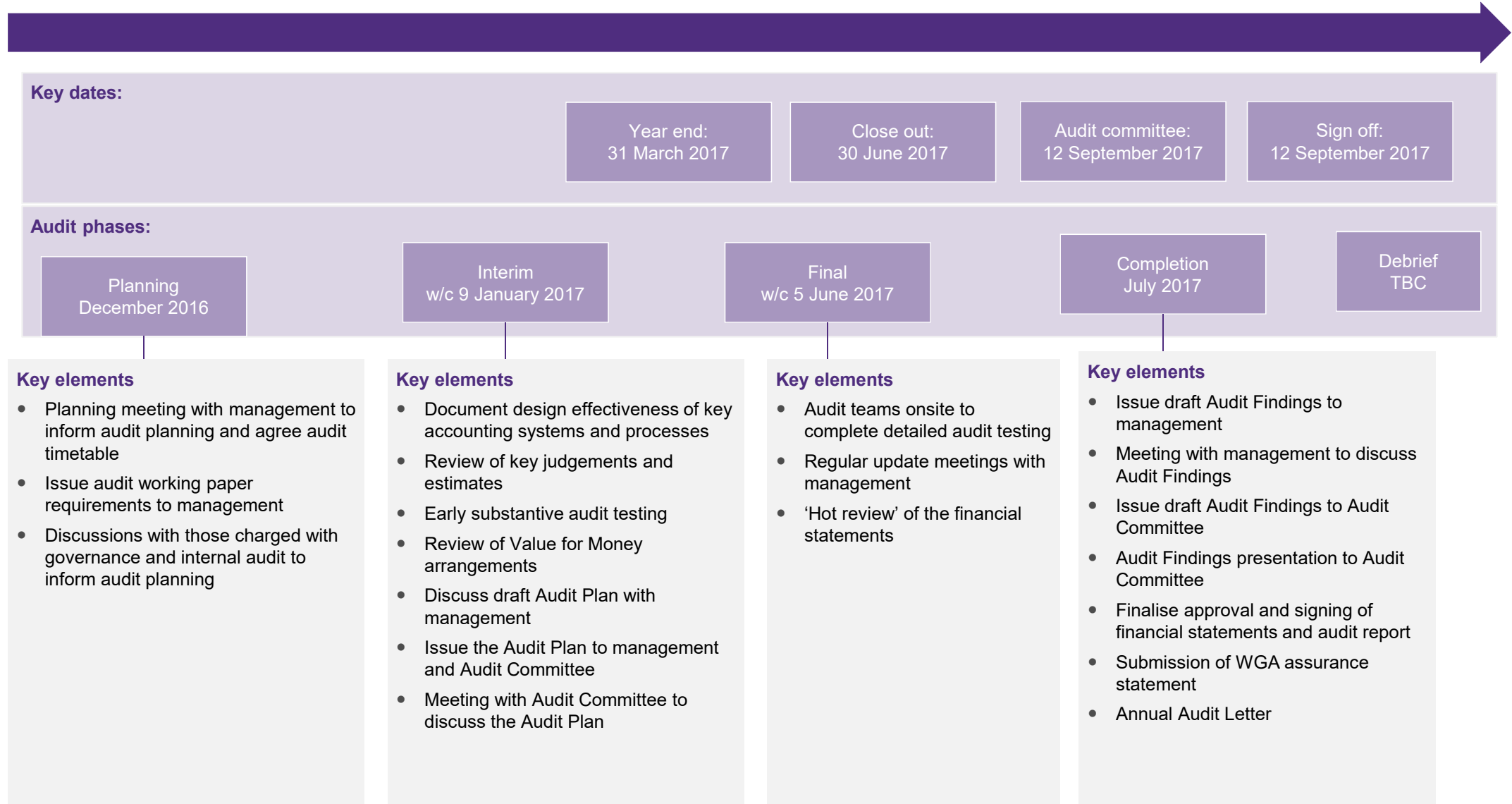
	Work performed	Conclusion
<b>Internal audit</b>	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding. However, none of the recommendations that we made in 2016 have been implemented and therefore they have been reiterated in the action plan (Appendix 1)</p>

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, namely operating expenditure, employee remuneration, property, plant and equipment, and housing benefit expenditure.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry 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.</p> <p>As noted on page 6, we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>At the final audit we will review journal transactions recorded in the final three months of the year, with a particular focus on year end adjusting journal entries.</p>
<b>Early substantive testing</b>	<p>We have undertaken early substantive testing on operating expenditure, grant revenue, and other revenue. Our testing has focussed on transactions recorded in the first nine months of the financial year.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Our work has not identified any errors or which impact on our audit approach.</p> <p>At the final audit we will perform detailed testing over operating expenditure, grant and other revenue transactions recorded in the final three months of the year.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	123,832
Grant Certification (indicative fee)	13,755
<b>Total audit fees (excluding VAT)</b>	<b>137,565</b>

## 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
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

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# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. 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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

## Fees for other services

Service	Fees £	Planned outputs
<b>Non-audit related</b>		
CFO Insights	10,000	None
<b>Audit related</b>		
Reporting Accountant's report on Regional Growth Fund	5,000	Reporting Accountant's report

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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.

Our communication plan	Audit Plan	Audit Findings
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 issues 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	✓	✓

# Appendix 1: Action plan update

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response from the 2015/16 Audit Findings Report	Update
1	<p><b>iTrent system controls</b></p> <ul style="list-style-type: none"> <li>review the number of administrative staff and ensure that segregation of duties principles are maintained</li> <li>continue to review password settings to improve password security in-line with the Council's own password policy of a nine character, complex password</li> <li>ensure that security logs are subject to periodic review .</li> </ul>	Medium	<p>Agreed</p> <ul style="list-style-type: none"> <li>all profiles including system administrators will be reviewed and amended</li> <li>we are currently working with North Somerset Council to improve password security</li> <li>processes are currently being reviewed and this will be captured as part of that review.</li> </ul> <p>Implementation date: 31 October 2016 Responsibility: Systems Control Team Leader</p>	<p>At the time of the interim audit the recommendations made in the 2015/16 Audit Findings Report had not been implemented.</p> <p>We will review the progress against the recommendations during the final audit in June 2017.</p>

# Appendix 1: Action plan update

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response from the 2015/16 Audit Findings Report	Update
2	<p><b>Valuations of other land and buildings and investment properties</b></p> <p>Ensure that the carrying values adequately reflect movements since formal valuations were last undertaken.</p>	High	<p>Agreed - The proposed mitigations for 2016/17 valuations are :-</p> <ul style="list-style-type: none"> <li>• A valuation date of 29th September 2016</li> <li>• In the quinquennial cycle, high value assets have more impact on the indexation and can move overall values beyond material tolerances. These assets will therefore be subject to more frequent valuations. For example, Roman Baths will require annual valuation.</li> <li>• We will revisit indices used to ensure these reflect prevailing local conditions.</li> <li>• An additional requirement for the Head of Property to advise the value of the overall property stock balance sheet date of 31st March 2017.</li> </ul> <p>Implementation date: May 2017</p> <p>Responsibility: Head of Property Service and Corporate Finance Manager</p>	<p>We have held discussions with the Head of Property Service who has confirmed that the proposed mitigations on track to be delivered.</p> <p>We will review the progress made in advance of our final audit.</p>





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