

The Audit Plan for South Somerset District Council

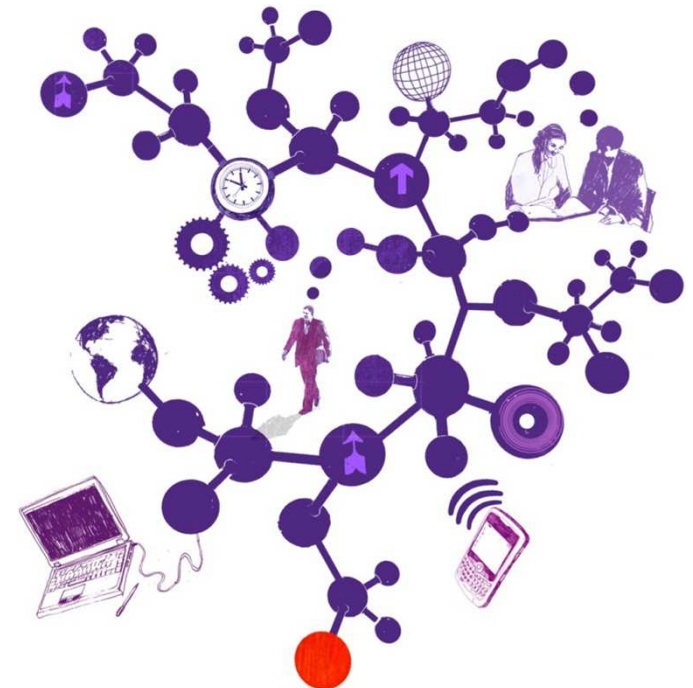
Year ended 31 March 2014

27 March 2014

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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. Delivering the medium term financial plan

- The Council faces further significant reductions in Government revenue support grant (£1.2m in 2014/15 and 2015/16).
- The Council reviewed its risks in January 2014 and determined that general balances should be retained within the range of £3.2m to £3.6m.
- At the end of February the Council estimated an underspend of £0.77m in 2013/14 to maintain balances at £3.9m.
- There is a budget shortfall in 2014/15 of £0.96m and a further £1.5m in 2015/16.

2. Local Government Finance Act

The Local Government Resource Review made three areas of reform to Local Government Finance:-

- The local retention of Business Rates
- The replacement of Council Tax Benefit by provision for Local Council Tax support from 1 April 2013.
- Discretion on the level and period of discount to be applied to certain classes of empty property.

3. Funding infrastructure

The District Executive has been considering the benefits of investing in infrastructure. South Somerset will be responding to schemes outside the normal capital bidding process.

The Council has increased its capital programme for 2014/15 to £6.8m, of which £2.5m will be financed through external grants.

4. Accounts

There were recommendations arising from the audit of 2012/13 accounts including:

- including the investment in Lufton 2000 to be recognised in the balance sheet
- lease disclosures
- IT controls

Our response

- We will continue to monitor progress against the Medium Term Financial Plan and review progress in achieving the savings plans.
- We will continue to review the arrangements for securing future economies to inform our Value for Money conclusion and ensure that a balanced budget will be achieved in future years.
- We will follow up recommendations from our Financial Resilience report and Annual Audit Letter from last year.

- As part of our Value for Money work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes.
- We will discuss and review the accounting impact of these changes with the finance team.

- We will take this issue into account in reaching our VFM conclusion but we are not expecting to carry out any specific work on this issue.

- We will review the progress made by the Council in response to our audit recommendations.
- We will continue to discuss key issues in advance of the audit with the finance team.

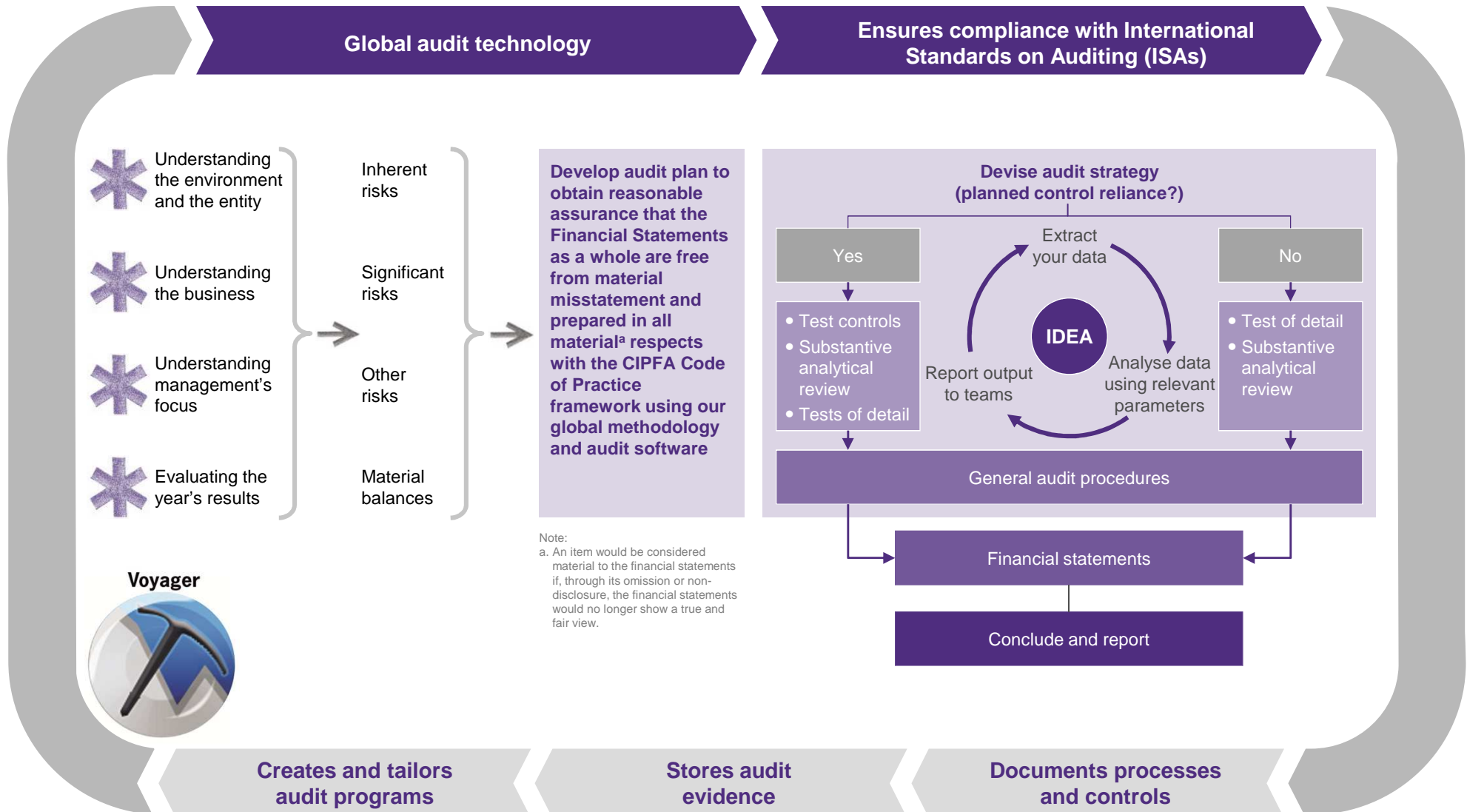
Developments relevant to your business and the audit

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					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around property valuations • Changes to NDR accounting and provisions for business rate appeals 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • 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"> • The impact of 2013/14 changes 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 which we review • The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will review</p> <ul style="list-style-type: none"> • how the Council ensures that it complies with the requirements of the CIPFA Code of Practice • the basis of the Council's estimates for business rate appeals 	<p>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</p>	<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 	<p>We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management and a review of the entries in your draft 2013/14 financial statements.</p>	<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.	<p>Work planned:</p> <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.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal entries periods 1-10 (April 2013 to January 2014) <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for remaining periods and year end adjustments / reconciliations • 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"> Walkthrough tests of design and operation of controls Initial substantive testing of Operating Expenses for periods 1 to 10 (April 2013 to January 2014) to underlying supporting documentation 	<ul style="list-style-type: none"> Substantive testing of operating expenditure for remaining periods 11 to 12 (February to March) and year end adjustments / reconciliations Review and testing of creditors/liability balances of unusual and large amounts Review of unrecorded liabilities and after date payments to ensure all liabilities identified
Employee remuneration	Employee remuneration accrual understated (expenses not correct)	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of a sample of payroll payments throughout the year to underlying evidence Agreement of payroll accruals to schedules and underlying evidence Review of senior officers pay disclosures and agreement to underlying data Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete Reconciliation of the payroll system figures to the general ledger figures
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of welfare expenditure will occur for the whole year to gain assurance over the welfare expenditure figures
Property, Plant and Equipment	Property, plant and equipment activity not valid	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of capital expenditure during the year
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of revaluation adjustments

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>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.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We are discussing the operation of payroll suspense account reconciliations and documentation supporting bank account reconciliations.</p>

Results of interim audit work (continued)

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
Journal entry controls	<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>To date we have undertaken some detailed testing on journal transactions recorded for periods 1 to 10 (April 2013 to January 2014) of the financial year, by extracting large and 'unusual' entries for further review.</p>	<p>We are in the process of reviewing journals and associated controls for senior staff and timing of reviews.</p> <p>Further testing will need to be undertaken to cover the remainder of the year.</p>
Review of information technology controls	<p>Our information systems specialist will be performing 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 the issues that were raised last year.</p>	<p>We will report the results of our findings and any recommendations in our Audit Findings Report.</p>
Early substantive testing	<p>Some early substantive work has been undertaken on the Operating Expenses for periods 1 to 10 of the financial year.</p>	<p>Our detailed testing on Operating Expenses is on-going. Further testing will need to be undertaken to cover the remainder of the year.</p>

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:

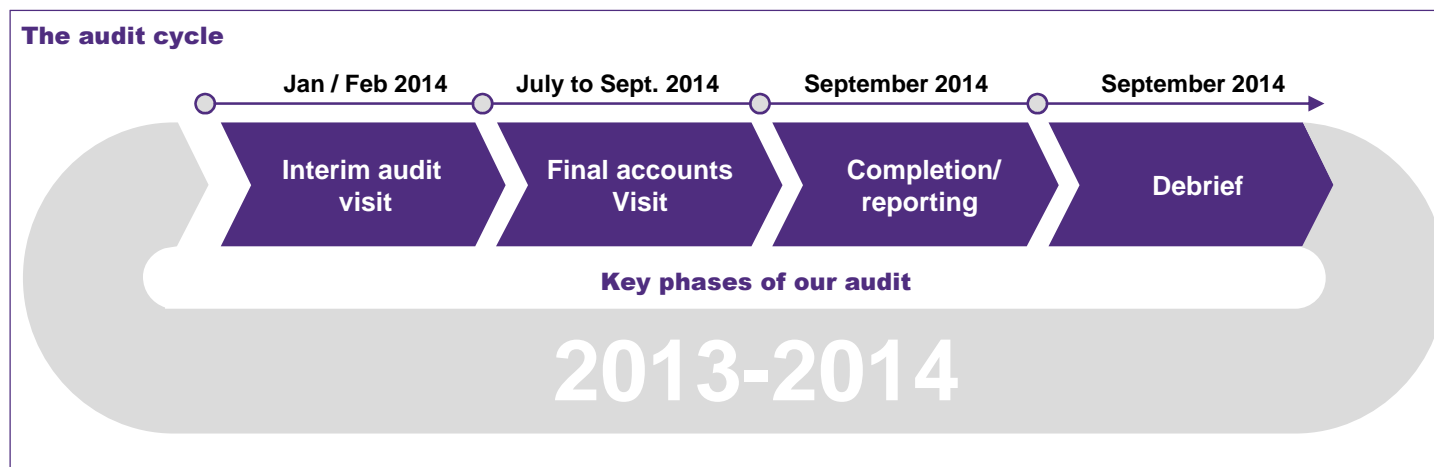
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate 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. Our work will include a review of:

- key indicators of financial performance
- strategic financial planning
- financial governance
- financial control
- delivery of savings against the 2013/14 budget
- the medium term financial plan (MTFP) and capital programme.

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.

Key dates



Date	Activity
January	Planning
January to March	Interim site visit
March	Presentation of audit plan to Audit Committee
July and August	Audit of financial statements
September	Meeting to clear final audit findings
September	Report audit findings to the Audit Committee
September	Issue opinion on financial statements

Fees and independence

Fees

	£
Council audit	64,801
Grant certification	12,200
Total fees (excluding VAT)	77,001

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	Fees £
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.

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 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		✓



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