

# The Audit Plan for South Somerset District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2015

4 February 2015

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Director

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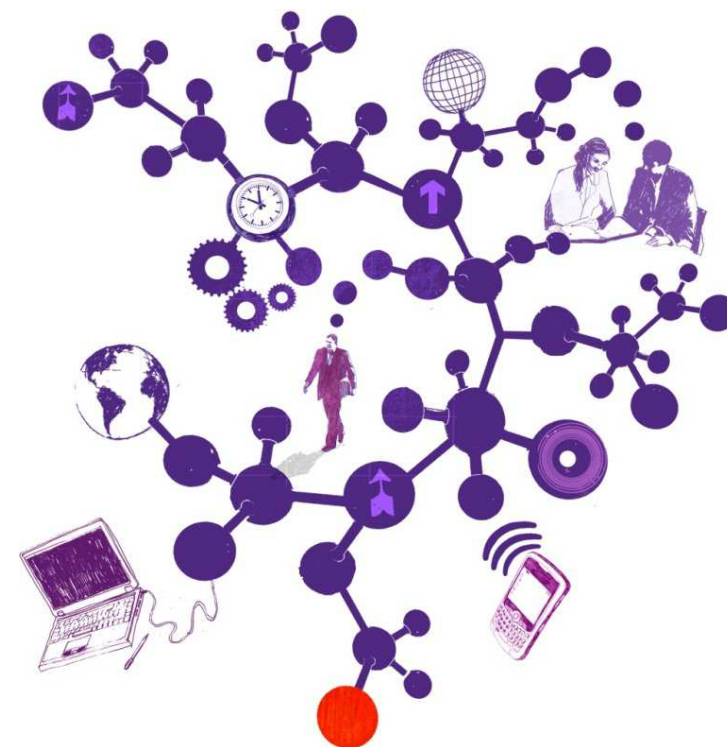
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# 1. Understanding your business and the audit

In planning our audit we 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 Pressures

- Based on income and expenditure in the first nine months of 2014/15 the Council estimated an underspend of £0.88m.
- The Council faces further significant reductions in Government revenue support grant (£1.1m in 2015/16).
- The Council has updated its medium term financial plan and has balanced the budget for 2015/16
- There is a budget shortfall in 2016/17 of £1.5m.

### 2. Financial reporting

- Changes to the CIPFA Code of Practice
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 10,11 and 12)

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 4. Previous year's recommendations

There were recommendations arising from the audit of 2013/14 including:

- Council Tax collection rates
- revised estimates
- reconciliation of payroll control accounts
- review of IT security policy

### 5. Other requirements

- 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

- 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.

We will ensure that

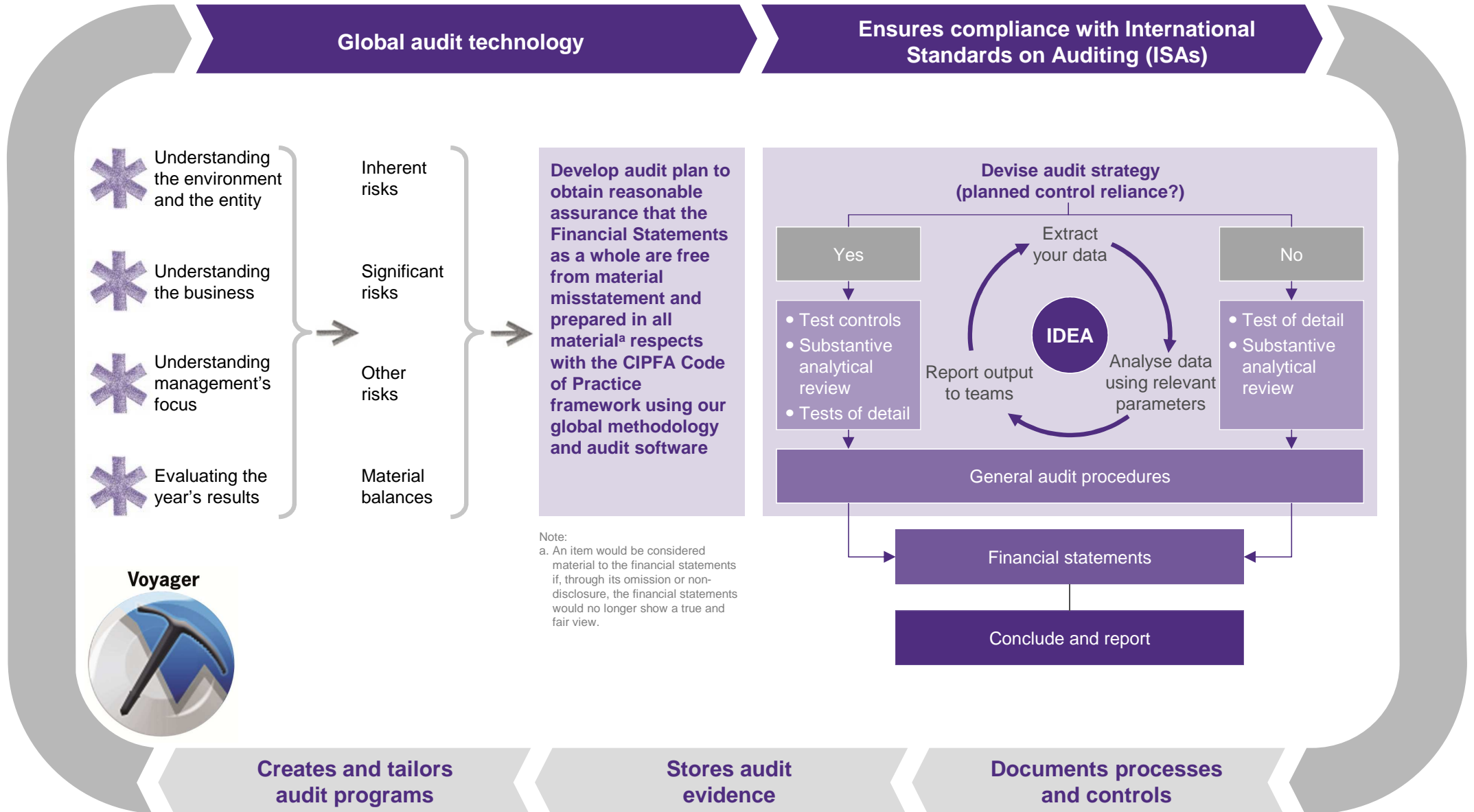
- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

- 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

- 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.

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

## 2. Our audit approach



### 3. 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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Somerset District Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

## 4. 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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review and testing of creditors/liability balances of unusual and large amounts</li> <li>Review of unrecorded liabilities and after date payments to ensure all liabilities identified</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete</li> <li>Reconciliation of the payroll system figures to the general ledger figures</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Testing a sample of welfare expenditure to ensure that is accurate</li> </ul>
Transfer of Business Rates from Civica to Northgate	Towards the end of 2014/15 the Council is changing software systems for Business Rates.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review the processes that the Council has in place to ensure that balances and account details have been accurately transferred and consider the impact on the financial statements</li> <li>Where appropriate, undertake testing of a sample of transactions</li> </ul>

## 5. 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:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have considered Internal Audit's overall arrangements. 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 controls for the Treasury Management system. We have not identified any significant weaknesses impacting on our responsibilities. We will review the remainder of Internal Audit findings when it has completed its work.</p>	<p>Overall, we have concluded that the internal audit service continues to contribute 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>
<b>Walkthrough testing</b>	<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>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>The Council has introduced quarterly reconciliations of the payroll control accounts in response to our recommendation from 2013/14.</p>
<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>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>



## 5. Results of interim audit work continued

	<b>Work performed</b>	<b>Conclusion</b>
<b>Review of information technology controls</b>	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, including the arrangements regarding the transfer of Business Rates from Civica to Northgate.	We will report our findings to the Audit Committee once our work is completed.
<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>We will undertake detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review.</p>	We will report our findings to the Audit Committee once our work is completed.
<b>Early substantive testing</b>	We are undertaking early testing of a sample of creditor payments for the first 8 months of 2014/15.	Our work has not yet identified any weaknesses which impact on our audit approach. We do not have any issues to report.

## 6. 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:

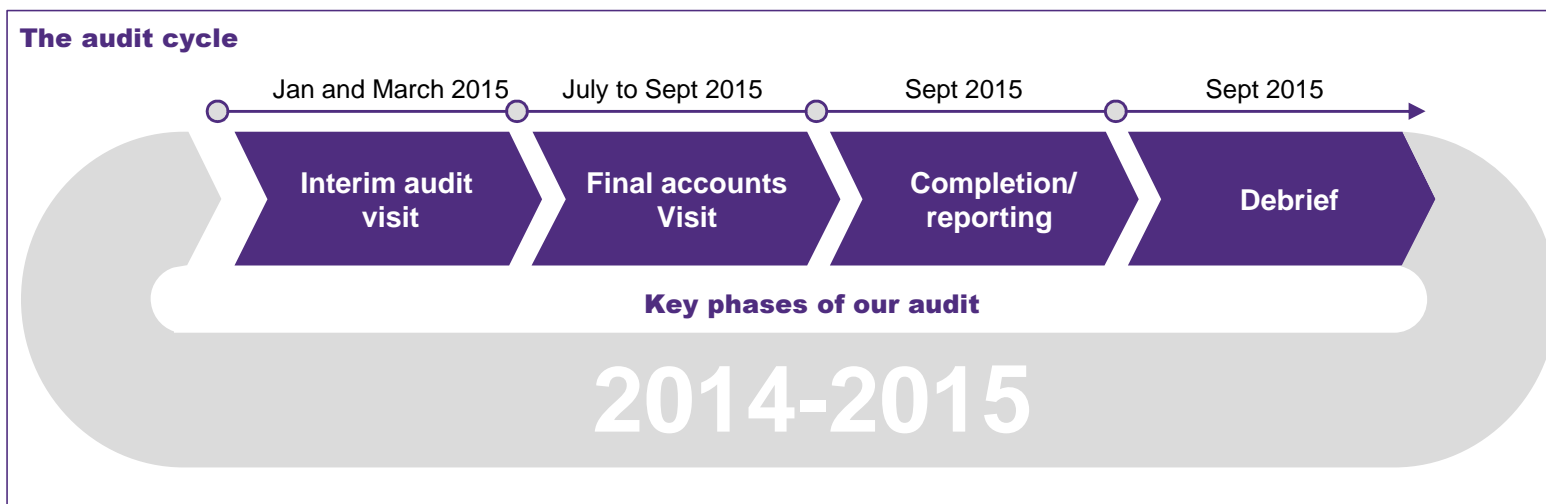
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate 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 will review the following areas to arrive at our conclusion:

- key indicators of financial performance
- strategic financial planning
- financial governance
- financial control
- delivery of savings against the 2014/15 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.

## 7. Key dates



Date	Activity
January 2015	Planning
January 2015 and March 2015	Interim site visits
25 March 2015	Presentation of audit plan to Audit Committee
July to September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Assistant Director (Finance and Corporate Services)
24 September 2015	Report audit findings to the Audit Committee
By 30 September 2015	Sign financial statements opinion

## 8. Fees and independence

### Fees

	£
Council audit	65,701
Grant certification (indicative by Audit Commission)	13,990
<b>Total fees (excluding VAT)</b>	<b>79,691</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

### Grant certification

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

### Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services 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.

### 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.

## 9. 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](http://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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