

Taunton Deane Borough Council

Corporate Governance Committee - 24 June 2013

External Audit (Grant Thornton) Audit Plan 2012/2013

Report of the Strategic Director (Shirlene Adam)

(This matter is the responsibility of the Leader of the Council, Councillor John Williams)

Executive Summary

This report introduces the External Audit Plan for 2012/2013. This is prepared by our external auditors, Grant Thornton (and set out in an Appendix to this report).

The report, which will be presented by Grant Thornton, summarises their approach to the 2012/2013 audit programme, and provides information on the work already undertaken, the work still to be completed and the likely timescales, and the auditors view on risk.

1. Background

- 1.1 Grant Thornton, our external auditor, has finalised the External Audit Plan for 2012/13 – as set out in Appendix 1.

2. Financial Issues / Comments

- 2.1 The report – in a new format this year – sets out the External Auditors views on risk areas for the Council and their approach to auditing them.

3. Legal Comments

- 3.1 There are no legal implications from this report.

4. Links to Corporate Aims

- 4.1 No direct implications.

5. Environmental and Community Safety Implications

- 5.1 No direct implications.

6. Equalities Impact

- 6.1 No implications.

7. Risk Management

- 7.1 Any risks identified will feed in to the corporate risk management process.

8. Partnership Implications

- 8.1 The Strategic Director and the Internal Audit Team (SWAP – South West Audit Partnership) will take the issues flagged in this report into

account when reviewing the areas of risk to be reviewed by Internal Audit in the current and future years.

9. Recommendation

- 9.1 Members are requested to note the External Audit Plan 2012/13 from Grant Thornton.

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The Audit Plan for Taunton Deane Borough Council

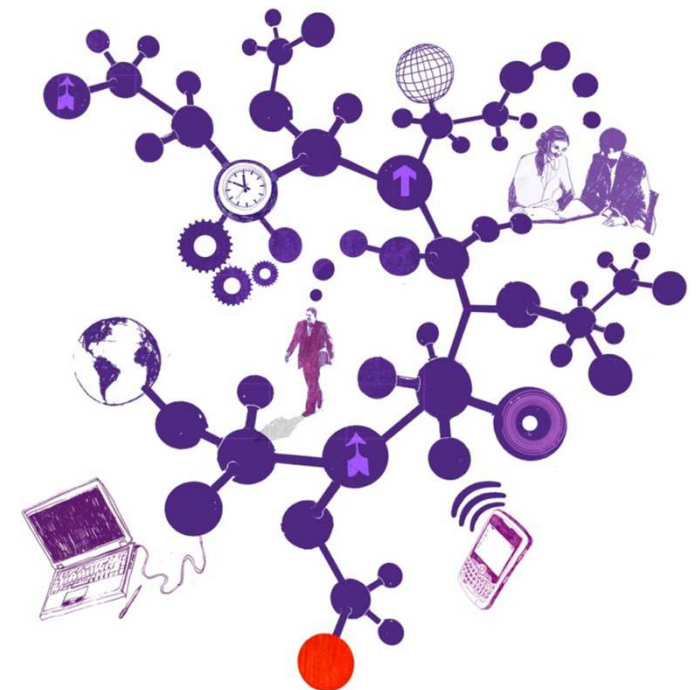
Year ended 31 March 2013

June 2013

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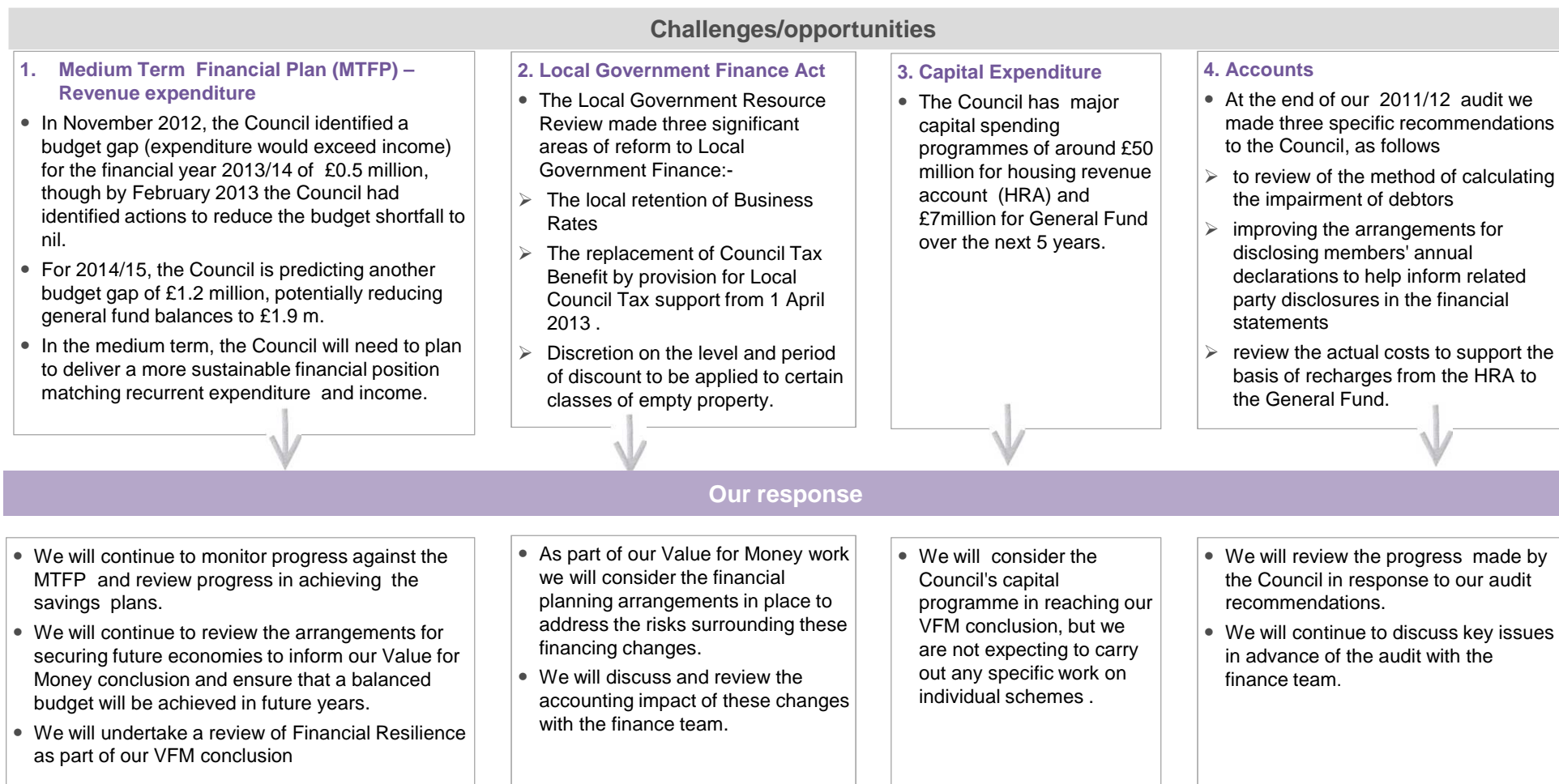
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1. Understanding your business

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.



2. Developments relevant to your business and the audit

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

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Recognition of grant conditions and income
- Self financing Housing Revenue Account

2. Legislation

- Local Government Finance settlement 2012-3
- Welfare reform Act 2012

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Pensions

- Planning for the impact of the changes to the Local Government pension Scheme (LGPS). The new LGPS 2014 will be based on average salary instead of final salary and changing contribution rates

5. Other requirements

- The Council is required to submit a Whole of Government (WGA) accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will review whether

- the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing
- grant income is recognised in line with the correct accounting standard

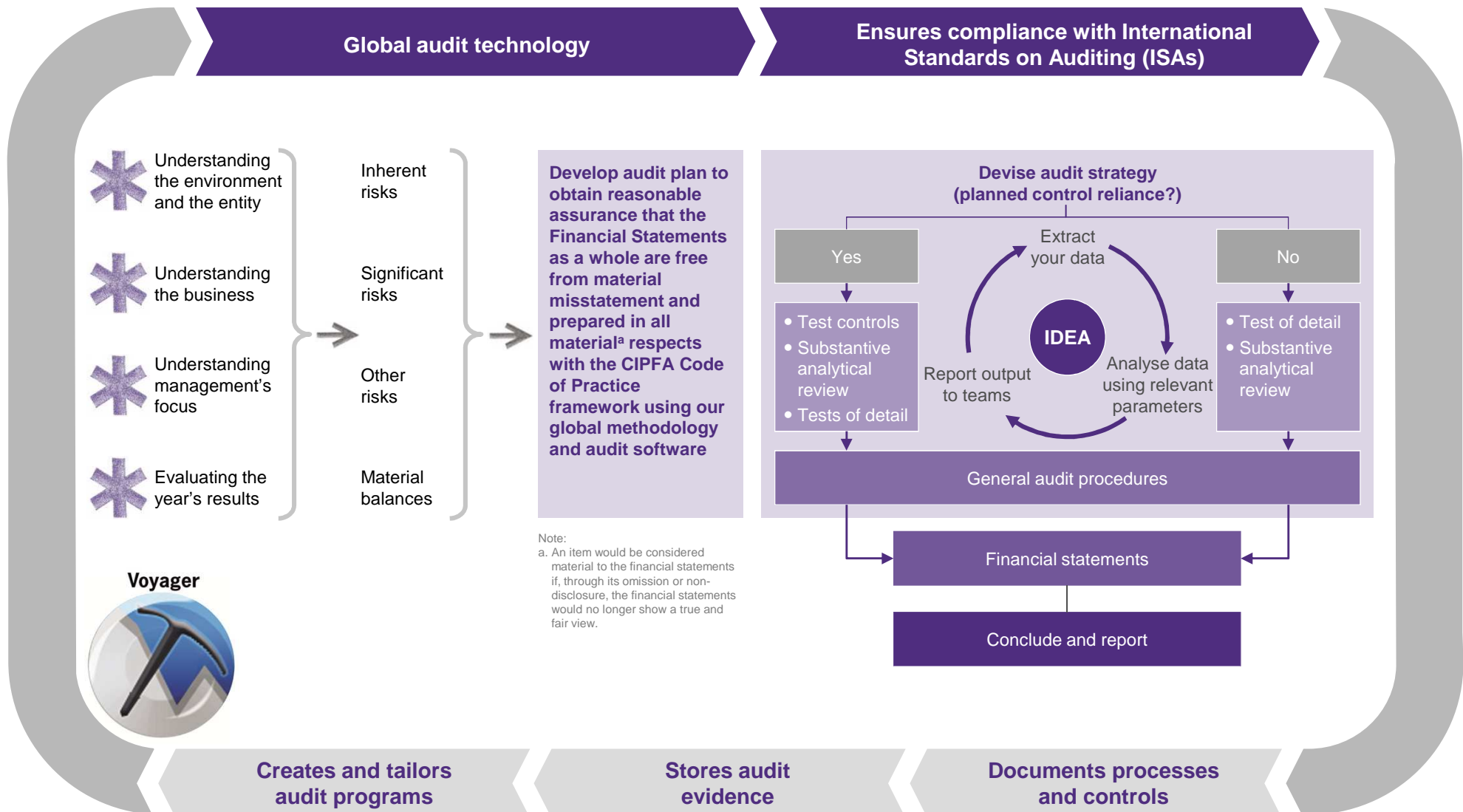
- We will discuss the impact of the legislative changes with the Council through our regular meetings with management and those charged with governance, providing a view where appropriate

- 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 consider the extent to which the Council has reflected on the best practice for its AGS and transparency of its governance arrangements

- We will discuss how the Council is planning to deal with the impact of the changes through our meetings with management

- 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

3. Our audit approach



4. An audit focused on risks

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

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

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

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

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses understated	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – Housing revenue	Yes	Housing Revenue Account	Medium	Other	Housing revenue transactions not recorded	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		×
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	Yes	Council Tax	Low	None		✓

4. An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×

4. An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	No	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

5. 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 included 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.	Work completed to date: <ul style="list-style-type: none">• No work yet completed Further work planned: <ul style="list-style-type: none">• Testing of revenue recognition policies• Performance of attribute testing on material revenue streams.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none">• No work yet completed 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.

6. Other risks

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

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses and creditors	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls have not identified any weaknesses. 	<ul style="list-style-type: none"> Substantive testing of material expenditure streams for the 2012-13 financial year Substantive testing of significant creditor balances Review of after date payments to ensure all liabilities identified
Employee remuneration	Remuneration expenses understated	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls have not identified any weaknesses. 	<ul style="list-style-type: none"> Substantive testing of employee remuneration expenditure
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls have not identified any weaknesses. 	<ul style="list-style-type: none"> Completion of housing and council tax benefits subsidy certification
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls have not identified any weaknesses. 	<ul style="list-style-type: none"> Substantive testing of HRA rental revenue
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Many of the processes that relate to PPE are undertaken at the end of the year but for other processes walkthrough tests of design and operation of controls have not identified any weaknesses. 	<ul style="list-style-type: none"> Substantive testing of PPE additions and disposals
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> This is a test to be carried out after the preparation of the financial statements. 	<ul style="list-style-type: none"> Review of accounting entries in respect of any revaluations to ensure fully and accurately reflected in the accounts

7. Interim audit work

Scope

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

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

	Work performed	Conclusion
Internal audit	We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. We will continue to review the internal audit's findings to inform our audit planning.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These relate to: <ul style="list-style-type: none"> • Property, plant and equipment • Employee remuneration • Operating expenses and creditors • Welfare Expenditure • HRA Rental Revenue 	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

7. Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology (IT) controls	Our information systems specialist will perform a review of the general IT control environment in June 2013.	Following completion of this work, we will confirm whether there are any material weaknesses which are likely to adversely impact on the Council's financial statements.
Journal entry controls	We are reviewing the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We have begun detailed testing on journal transactions by extracting large and 'unusual' entries for further review.	Following completion of this work, we will confirm whether there are any material weaknesses which are likely to adversely impact on the Council's financial statements.
Follow up of prior year recommendations	We have considered the recommendations made following our 2011-12 audit of the financial statements and discussed progress with the finance team.	We will continue to review progress against the recommendations raised as the implementation of these will be during the preparation of the 2012-13 financial statements.

8. Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Tone Leisure	No	Analytical	None. Accounting as an associate the Council's share of the surplus for 2011/12 was only £31,000. The Council's share in net assets of Tone Leisure at 31 March 2013 was a negative £244,000.	Desktop review performed by GT UK

9. Value for Money

Introduction

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

2012-13 VfM conclusion

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

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

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

Code criteria

The Council has proper arrangements in place for:

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

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

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will assess the arrangements in place to ensure financial resilience.

10. Logistics and our team



Date	Activity
March	Planning meeting
March/April	Interim site work
June	The audit plan presented to Corporate Governance Committee
August	Year end fieldwork commences
September	Audit findings clearance meeting
September	Audit Committee meeting to report our findings
September	Sign financial statements and VfM conclusion
October	Issue Annual Audit Letter

Our team

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<p>Peter Lappin Audit Manager T 0117 305 7865 E peter.lappin@uk.gt.com</p>	

11. Fees and independence

Fees

	2012-13	2011-12
Audit of financial statements	£66,605	£111,008
Grant certification*	£13,650	£31,576
Total	£80,255	£142,584

Fees for other services

Service	Fees £
None	Nil

* Indicative fee for 2012-13 will be based on actual time

Our fee assumptions include:

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

Independence and ethics

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

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

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

12. 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

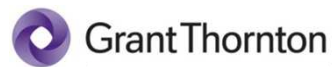
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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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