



The Audit Plan for Redditch Borough 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.

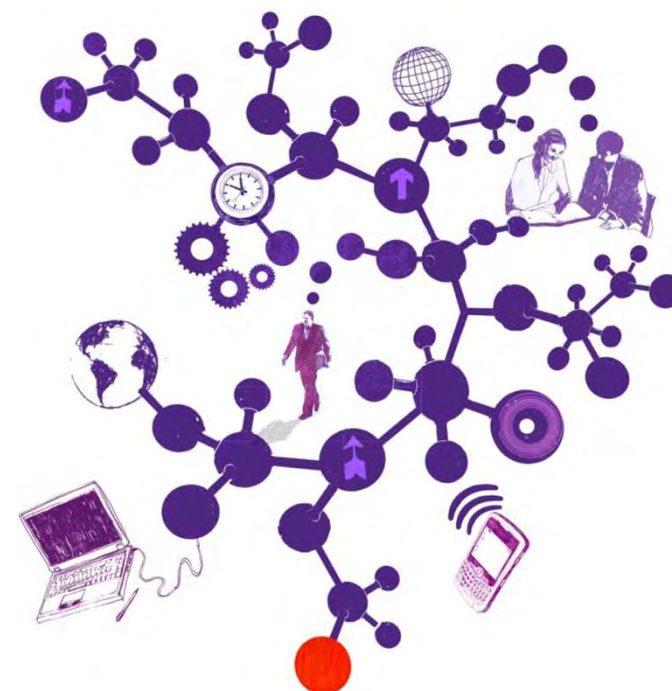
Year ended 31 March 2014

31 March 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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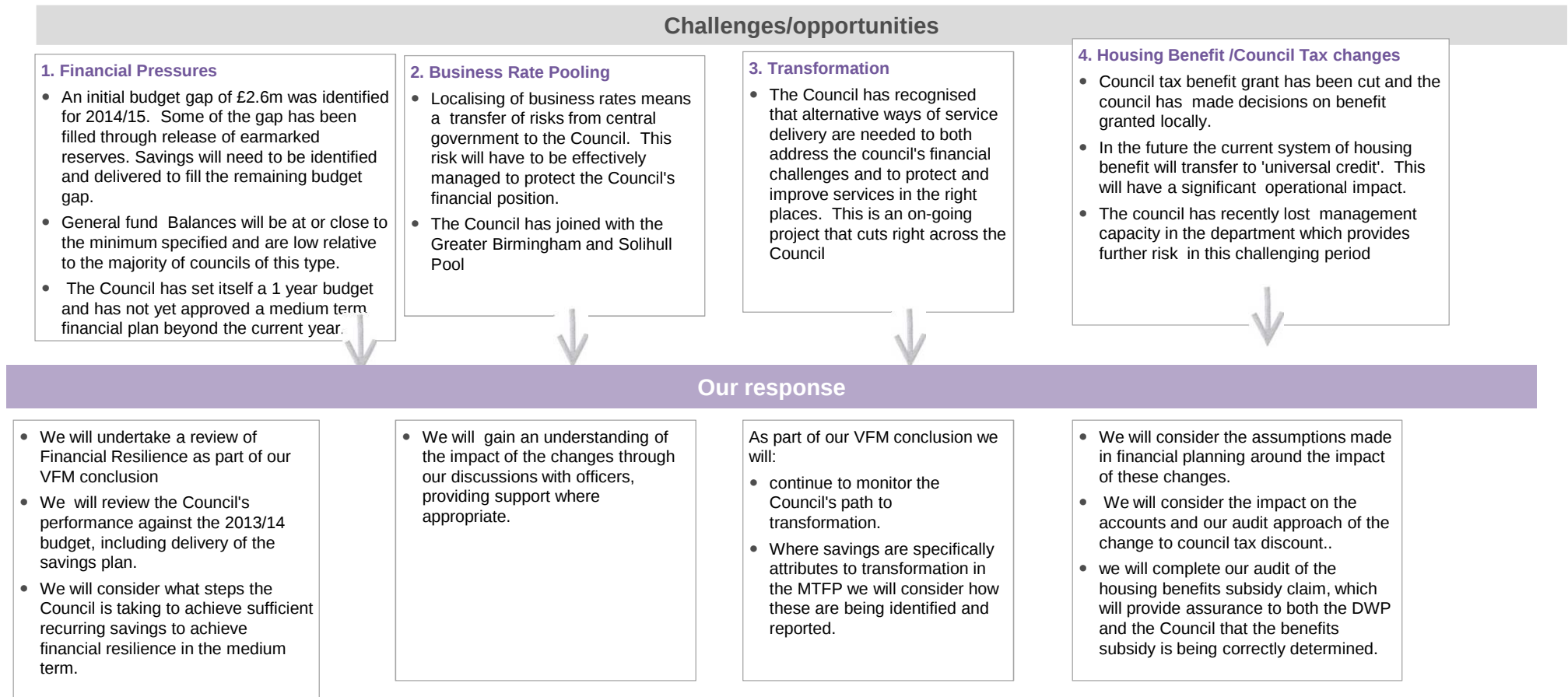
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Appendices

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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.



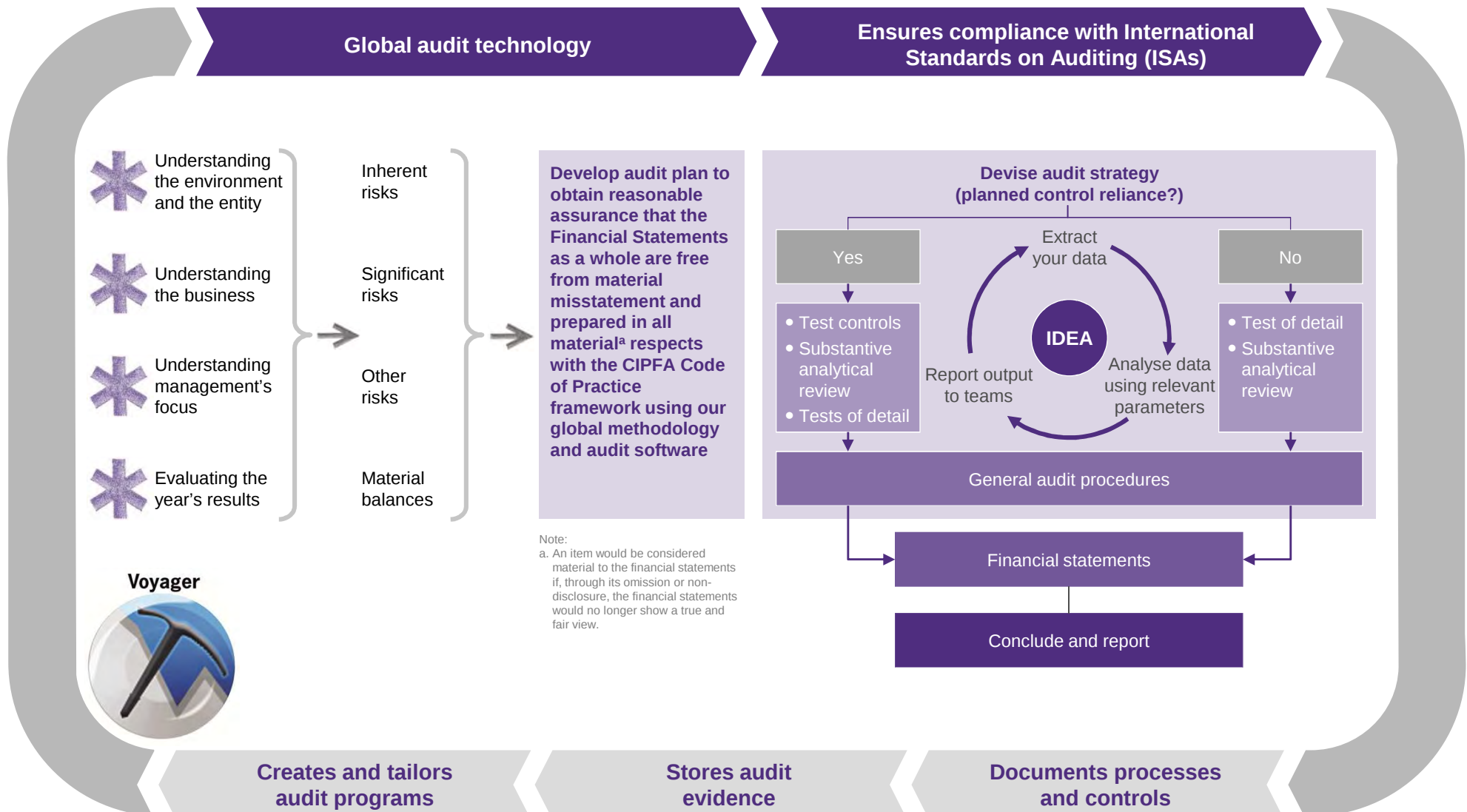
Developments relevant to your business and the audit

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

Developments and other requirements					
1. Financial reporting - Changes to the CIPFA Code of Practice - Clarification of Code requirements around PPE valuations - Changes to NDR accounting and provisions for business rate appeals	2. Legislation - Local Government Finance settlement - Welfare reform Act 2012	3. Corporate governance - Annual Governance Statement (AGS) - Explanatory foreword	4. Pensions The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)	5. Financial Pressures - Managing service provision with less resource - Progress against savings plans	6. Other requirements - The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion - The Council completes grant claims and returns on which audit certification is required. We are expecting that it will only be the housing benefit subsidy claim this year.

Our response					
We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing.	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	- 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 how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management	- 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	- We will carry out work on the WGA pack in accordance with requirements - We will certify the HB grant claims 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.	Work planned: • Review of revenue recognition policies • Testing of material income 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: • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries Further work planned: • Review of accounting estimates, judgments and decisions made by management • Further testing of journal entries – month 12 and year end journals • 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	We have conducted a walkthrough of the key controls for this system	We will carry out testing including: - cut off testing of purchase orders and goods received notes(both before and after year end) - the completeness of the reconciliations to the purchasing system. Testing will also cover a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.
Employee remuneration	Employee remuneration accrual understated	- We have conducted a walkthrough of the key controls for this system - Testing of a sample of employees remuneration covering the period to February 2014 to ensure they have been correctly accounted for.	We will carry out testing including: - the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements - sample of payments made in April & May to ensure payroll expenditure is recorded in the correct year. - review of monthly trend analysis of total payroll Top up testing will cover a sample of employee remuneration payments covering the period March –May 2014 to ensure they have been accurately accounted for and are in the correct period.
Welfare Expenditure	Welfare benefit expenditure improperly computed	We have conducted a walkthrough of the key controls for this system	We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim.

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
Housing Rent Revenue Account	Revenue transactions not recorded	• We have conducted a walkthrough of the key controls for this system	• Substantive testing of HRA rental income
Property, Plant & Equipment	Revaluation measurement not correct	• We have conducted a walkthrough of the key controls for this system • We have reviewed the qualifications of the valuer	• We will review the terms of reference, the assumptions and methods used by the Valuer, in their work carried out as an expert for the Council. • We will review valuation reports to support the accounting entries

Value for money

Value for money

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

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

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

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

We will:

- consider the planning assumptions in the budget for 13/14 and 14/15 and progress towards developing a medium term financial plan
- review the outturn for the 2013/14 financial year including the delivery of planned savings.
- consider the links between the Council financial planning and the strategic planning of the Council.
- consider how the Council is managing its financial risks

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 agree any additional reporting to the Council depending on the outcome of our review.

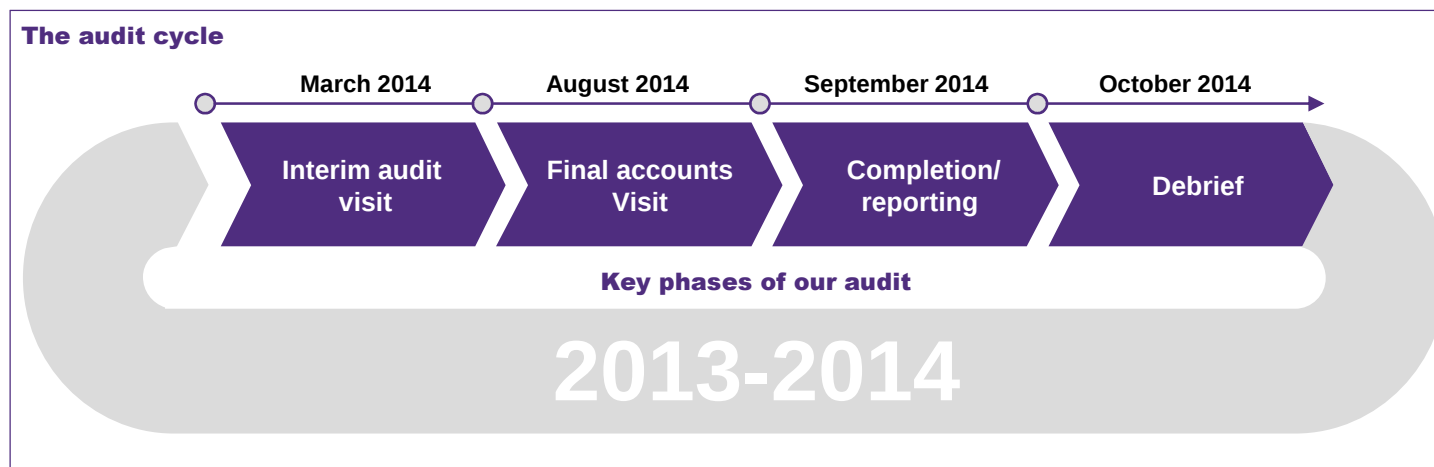
Results of interim audit work

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
Entity level controls	As part of our assessment of controls we review the council risk register and performance information	The detailed risk register was in the process of being updated and has not yet been provided for our review. The corporate risk register provided was out of date and did not link directly with Council strategic priorities or contain clear actions for risk mitigation. We are awaiting details of current performance measures to complete our assessment.
Internal audit	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. 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.	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. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	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. 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.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year. IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our work has identified a number of deficiencies in IT controls that have been reported to officers, however we did not judge that these constituted a material weakness.

	Work performed	Conclusion
Journal entry controls	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. To date we have undertaken detailed testing on journal transactions recorded for the first eleven 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.	There were no risks identified from the work completed to date. Further work on the remaining month will be undertaken as part of our post statements work.
Early substantive testing	We have undertaken the following work as part of our early substantive testing: • Review of grants received in year to supporting documentation • Significant investments taken out during the year were reviewed to ensure that there were in line with the Treasury Management strategy • Confirmation that some of the significant assets in the opening balance exist and belong to the Council	There have been no issues to report from the work undertaken to date. The following work is to be completed to add to early substantive work completed • Grants will be reviewed to ensure the correct accounting treatment has been applied at the year end • Investments in the balance sheet will be reviewed at year end to ensure they are in line with the Council's policy and can be agreed to . • Material additions to the Property, Plant and Equipment of the Council will be tested to prime documents.
Value for money	We have undertaken our initial risk assessment . This has involved detailed discussions with the Director of Finance on the basis of the 2014/15 budget and follow up of the matters raised in our VFM work last year. We updated our understanding of the HRA business plan developed as part of the self-financing determination.	The risks will be considered as part of our detailed risk assessment.. The 'HRA business plan' has been updated to reflect new information, however this is a financial model and should form part of a more detailed business plan for the service. The council has no firm plans to move towards componentisation of its HRA property assets, either as a whole or for on-going capital expenditure. The Council is continuing to use MRA as a proxy for depreciation, and needs to formally demonstrate that this is an appropriate measure as part of the final accounts process.

Key dates



Date	Activity
March 2014	Planning
March 2014	Interim site visit
April 2014	Presentation of audit plan to Audit Committee
August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Director of Finance
September 2014	Report audit findings to those charged with governance (Audit & Governance Committee)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	76,380
Grant certification	13,900
Total fees (excluding VAT)	90,280

Fees for other services

Service	Fees £
Threadneedle House Review	Tbc

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

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

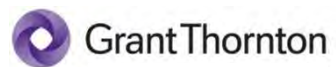
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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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