

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.

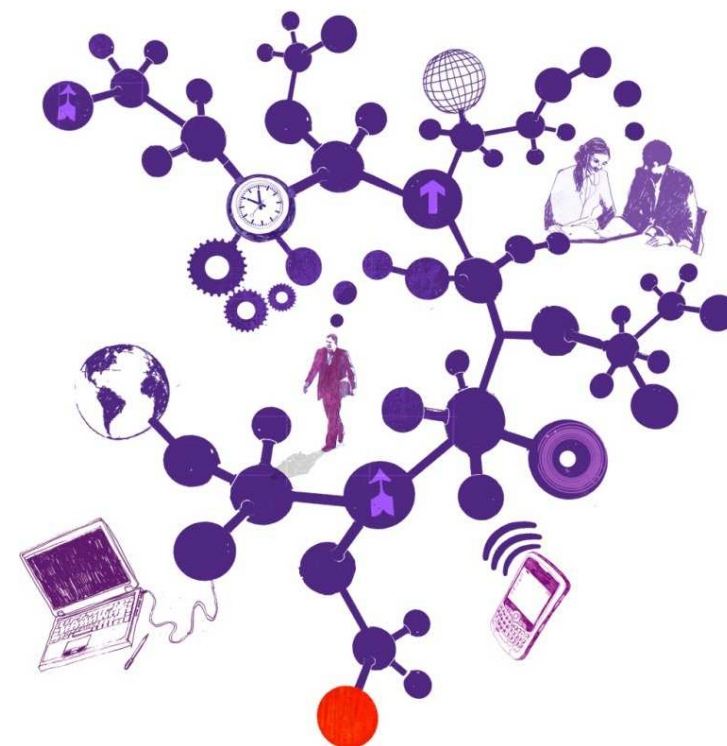
Year ended 31 March 2015

23 APR 2015

Phil Jones
Engagement Lead
T 0121 232 5232
E phil.w.jones@uk.gt.com

Zoe Thomas
Audit Manager
T 0121 232 5277
E zoe.thomas@uk.gt.com

Kathryn Kenderdine
Executive
T 0121 232 5316
E kathryn.a.kenderdine@uk.gt.com



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.

Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Value for Money
9. Results of interim work
10. Key dates
11. Fees and independence
12. Communication of audit matters with those charged with governance

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. Alternative delivery Models.

- the Council already has a number of partnership arrangements with other Council- including sharing management team and some services with its neighbouring council.
- The Council is considering a Joint property vehicle with partners and exploring the possibility of a leisure Trust to provide some of its existing services.

2. Procurement and Commissioning

- Delivering efficiency savings through service reviews and improved procurement

LG Reorganisation

- Regional devolution plans
- Combined Authorities
- Confederations

4. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.
- For Redditch, the settlement has resulted in a 5% reduction in spending power and the budget setting report highlights a reduction in grant of £652k

Our response

- As part of our VFM conclusion, we will consider the savings plans associated with the above projects as part of our assessment of the MTFP.
- We will discuss with you developments as the Council continues to review services. We will provide a view on any proposals as requested. .

- We will review the progress you have made in delivering your efficiency savings in this area as part of our review of your arrangements for financial resilience.

- We will discuss with you how these regional developments are likely to impact on Redditch Borough Council's forward plans.

- Redditch Borough Council's general fund balances are adequate, and above the level prescribed as minimum by the S151 Officer. The MTFP does not place reliance on these balances although there is some use of earmarked reserves planned for 2015/16.
- We will review your MTFP and financial strategy as part of our work on your arrangements for financial resilience.

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
- The Council are upgrading their ledger system and including a new debtors system.

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Financial Pressures

- The VFM conclusion was qualified in the prior year due to the absence of a medium term financial plan.
- Managing service provision with less resource.
- Progress against savings plans.

4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes the Housing Benefit grant claim on which audit certification is required

Our response

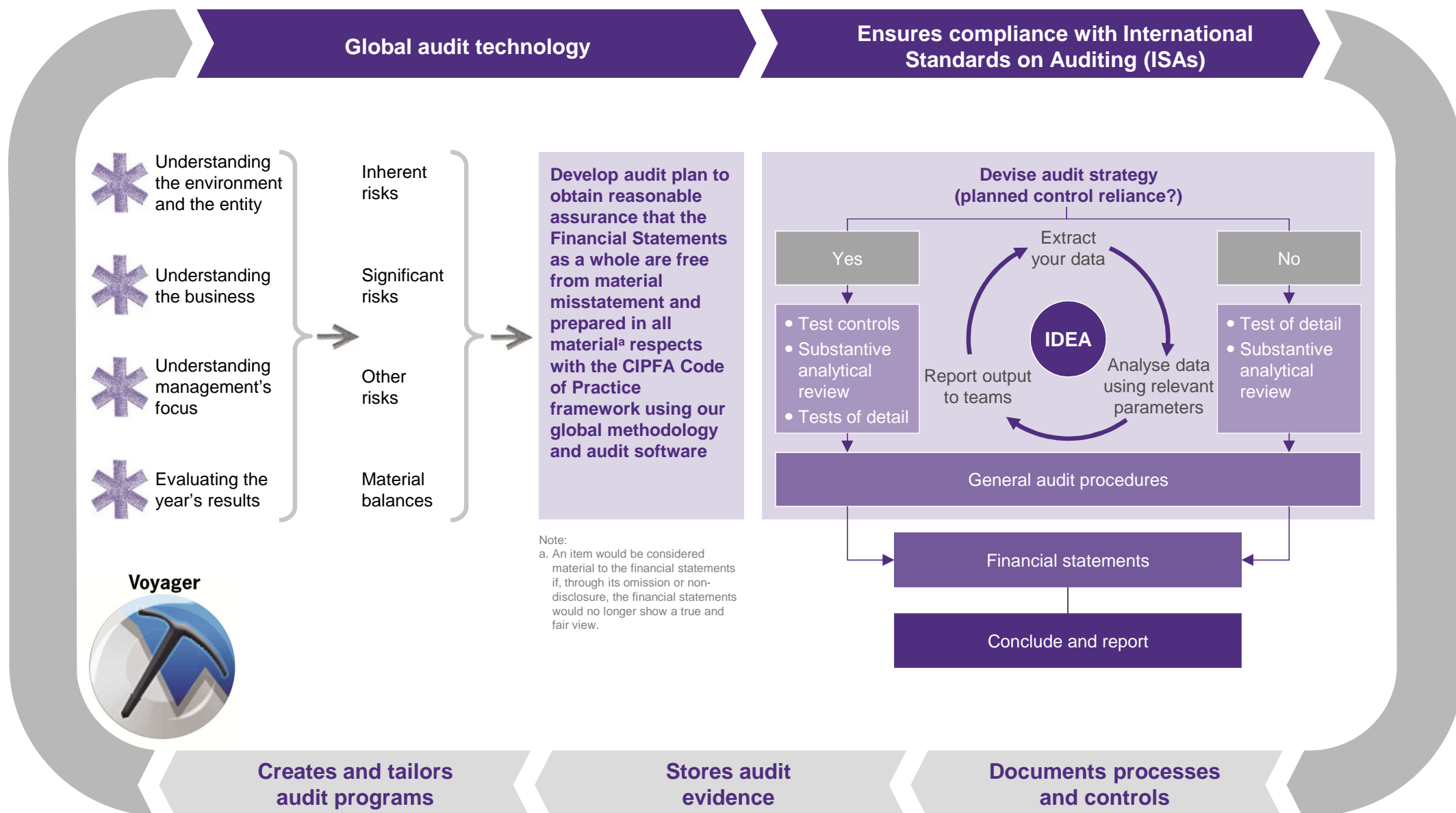
We will ensure that the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing

- 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 Council's performance against the 2014/15 budget, including consideration of performance against savings plans
- We will undertake a review of Financial Resilience as part of our VfM conclusion
- we will follow up the matters raised in the prior year Audit Findings Report and Annual Audit Letter

- 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.

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	<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 Redditch Borough Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Redditch Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none">• Further review of accounting estimates, judgments and decisions made by management• Testing of journal entries• 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 risks	Description	Audit Approach
Operating expenses	Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period. (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none">• We have conducted a walkthrough of the key controls for this system Further work planned: <ul style="list-style-type: none">• We will search for unrecorded liabilities by reviewing payments after the year end• We will review the Council's accruals process and test according (including goods receipted)
Employee remuneration	Employee remuneration and benefit obligations expenses understated. (Remuneration expenses not correct) In addition to this expected risk, we are aware that there is a gap in the payroll manager role for a period of 3 months. This provides an audit risk and we will undertake additional procedures to test completeness.	Work completed to date: <ul style="list-style-type: none">• We have conducted a walkthrough of the key controls for this system• We have tested a sample of employees remuneration covering the period to January 2015 to ensure they have been correctly calculated and accounted for.• We have completed a trend analysis on employees remuneration covering the period to January 2015 to identify any areas of further investigation. Further work planned: <ul style="list-style-type: none">• We will undertake a reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger.• We will complete our trend analysis and testing of individual employees for the 2014/2015 year Additional work <ul style="list-style-type: none">• Review of Payroll reconciliation approval arrangements for the period when the payroll manager is not in post• Review of exception reports and review of the follow up of any exceptions identified

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

In 2013/14 we qualified the VFM conclusion due to the absence of a medium term financial plan (MTFP). In 2015/16 the Council has prepared a MTFP . We will consider the basis of this plan, in particular the recurring savings outlined in the plan, as these are key to the financial resilience of the council.

We have undertaken an initial risk assessment and have identified the following areas for further review:

- 1) Reliability of assumptions in the MTFP: -we will consider the basis of the savings in the 2015/16 financial plans and the progress being made on delivery
- 2) Reliability and timeliness of in year financial reporting - we will consider out-turn against Q3 and the adequacy of reporting of savings achieved on out-turn
- 3) Liquidity - we will consider the level of balances and the reliance being placed on earmarked reserves
- 4) Links between MTFP and strategic priorities - we will consider progress council is making on defining what success looks like, how they are measuring it and how this relates to the decisions made in the MTFP
- 5) risk management - how the council is managing risks - at a corporate level but particularly the 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.

Results of interim audit work

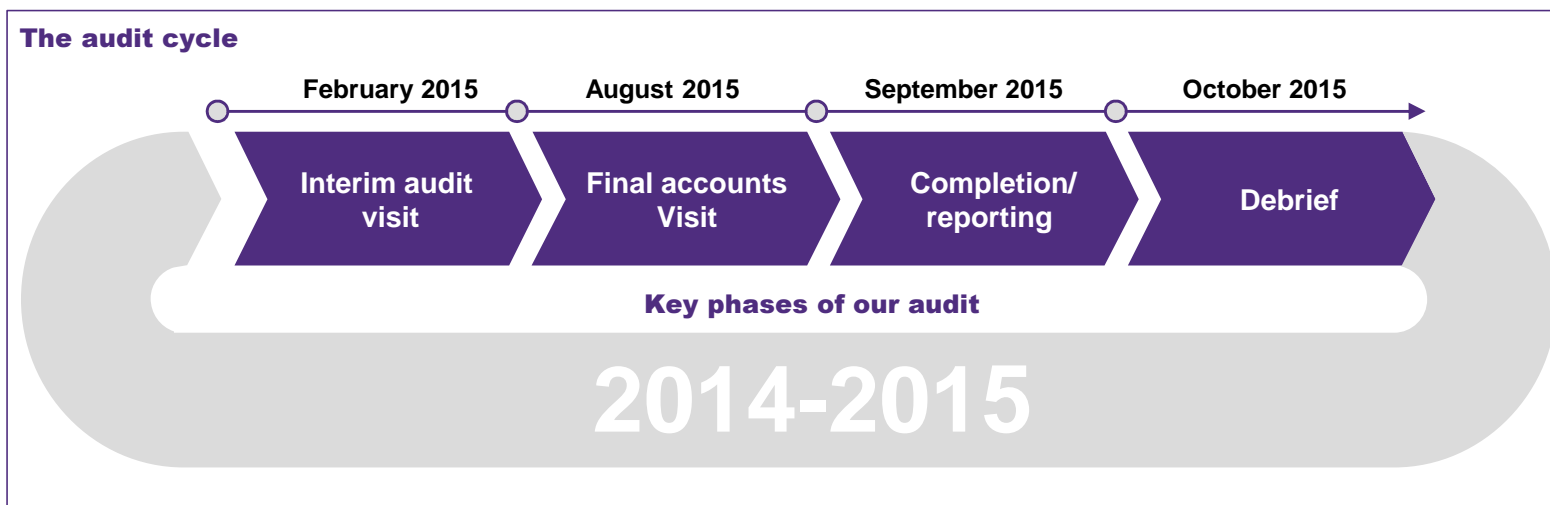
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have undertaken a high level review of internal audit's overall arrangements..	Our work to date has not identified any issues that we wish to bring to your attention. We will review internal audit's work on the Council's key financial systems and consider the impact of their findings on our planned approach.
Walkthrough testing	We have completed most of our walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. At the time of our interim visit in February – bank reconciliations had not been completed beyond month 7. New systems issues have meant that officers are behind on these but expect that up to February will be completed by our visit in April. Our work has not identified any other issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	We understand the reasons for the delay in completing the bank reconciliation, however this is a key control and we would expect bank reconciliations to be completed monthly. .
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. We have noted that several of the council's policies and procedures are in need of review and this includes financial regulation and the fraud and corruption policy. This matter was raised last year. Similarly last year we highlighted that the corporate risk register was not being used effectively. The most up to date register provided at our interim audit was March 14, suggesting that it is still not being used as a relevant management tool .

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist has 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.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We have identified some more minor control weaknesses and they have recently been shared with your IT manager. We did note that several of the matters raised last year have not yet been addressed.</p>
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>The system does allow senior officers to post journals, which is a matter we raised last year, although we did not identify any matters arising out of this in our testing. Our testing approach this year will involve using computer assisted techniques to identify any such journals and we will test any identified.</p>	<p>We will complete our detailed journal testing as part of the final accounts visit as we judge this to be the most efficient approach</p>
Early substantive testing	<p>We have had discussion with your officers around current issues this year, including around the valuation of your investment assets. We have also discussed the progress the council has made on the upgrade of the financial ledger and the new income module.</p> <p>We have undertaken some early testing on payroll which we will complete at our second interim and final visit.</p>	<p>We are planning to undertake some further substantive testing at our second interim visit of payroll and property. No matters of concern have arisen from our work to date.</p>

Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
April 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Executive Director of Finance & Corporate Resources
September 2015	Report audit findings to those charged with governance
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	77,280
Grant certification	13,720
Total fees (excluding VAT)	91,000

Fees for other services

Service	Fees £
None	Nil

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 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.

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		✓



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk