

The Audit Plan for Calderdale Metropolitan Borough Council

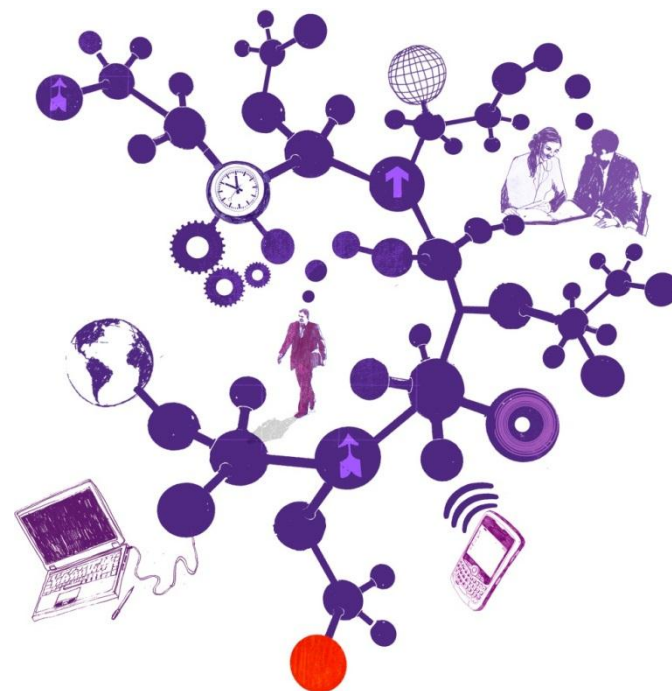
Year ended 31 March 2014

March 2014

Mark Heap
Engagement Lead
T +44 (0)161 953 6900
E mark.r.heap@uk.gt.com

Marianne Dixon
Engagement Manager
T +44 (0)7880 456 157
E marianne.dixon@uk.gt.com

Tom Mulloy
Assistant Manager
T 0113 245 5514
E thomas.mulloy@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. Results of interim work
8. Value for Money
9. Logistics and our team
10. Fees and independence
11. 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. Budget settlement

- The Council continues to face significant financial pressures.
- 'Since the 2010 Spending Review, the Council's budget savings are expected to reach £56m per annum by the end of 2013/14.
- Latest plans indicate that a further £33m savings per annum will need to be achieved by the end of the period 2014/15 to 2016/17.

2. Better Care Fund

- The Council is required to work with its partners to implement the integrated transformation fund ('Better Care Fund'). This brings together health and social care budgets with the intention of creating a properly joined up service.

3. West Yorkshire Pension Fund triennial valuation

- The West Yorkshire Pension Fund has undergone a triennial revaluation with effect from 31 March 2013
- The Council's share of the Pension Fund assets and liabilities will be based on the output of the triennial valuation
- Any inaccuracies in the data used could potentially affect the actuarial figures in the Council's accounts

4. Safeguarding Children

- In 2012/13 we qualified our Value for Money Conclusion in light of the Improvement Direction Notice issued by the Secretary of State and Ofsted reports concluding that 'the overall effectiveness of the arrangements to protect children in the Calderdale Metropolitan Borough Council area is judged to be inadequate.'
- The Council received a further Direction Notice in October 2013

Our response

- As part of our Value for Money work we will assess the plans the Council has in place to ensure a sound financial standing, reviewing the responsiveness of the Council's Medium Term Financial Plan.
- We will review the effectiveness of delivery of the Council savings plans in 2013/14.

- We will review how the Council is working with its partner organisations to implement joint plans for health and social care services in the run up to the fund taking full effect from 2015/16.
- We will assess how the Council is taking account of the transfer of funds from its existing budgets to create the fund, as part of its medium term financial planning.

- We will review the accuracy of the data provided to the actuary
- We will liaise with Mazars, the external auditors of the Pension Fund

- We will review the progress made by the council in response to the latest Direction Notice

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.

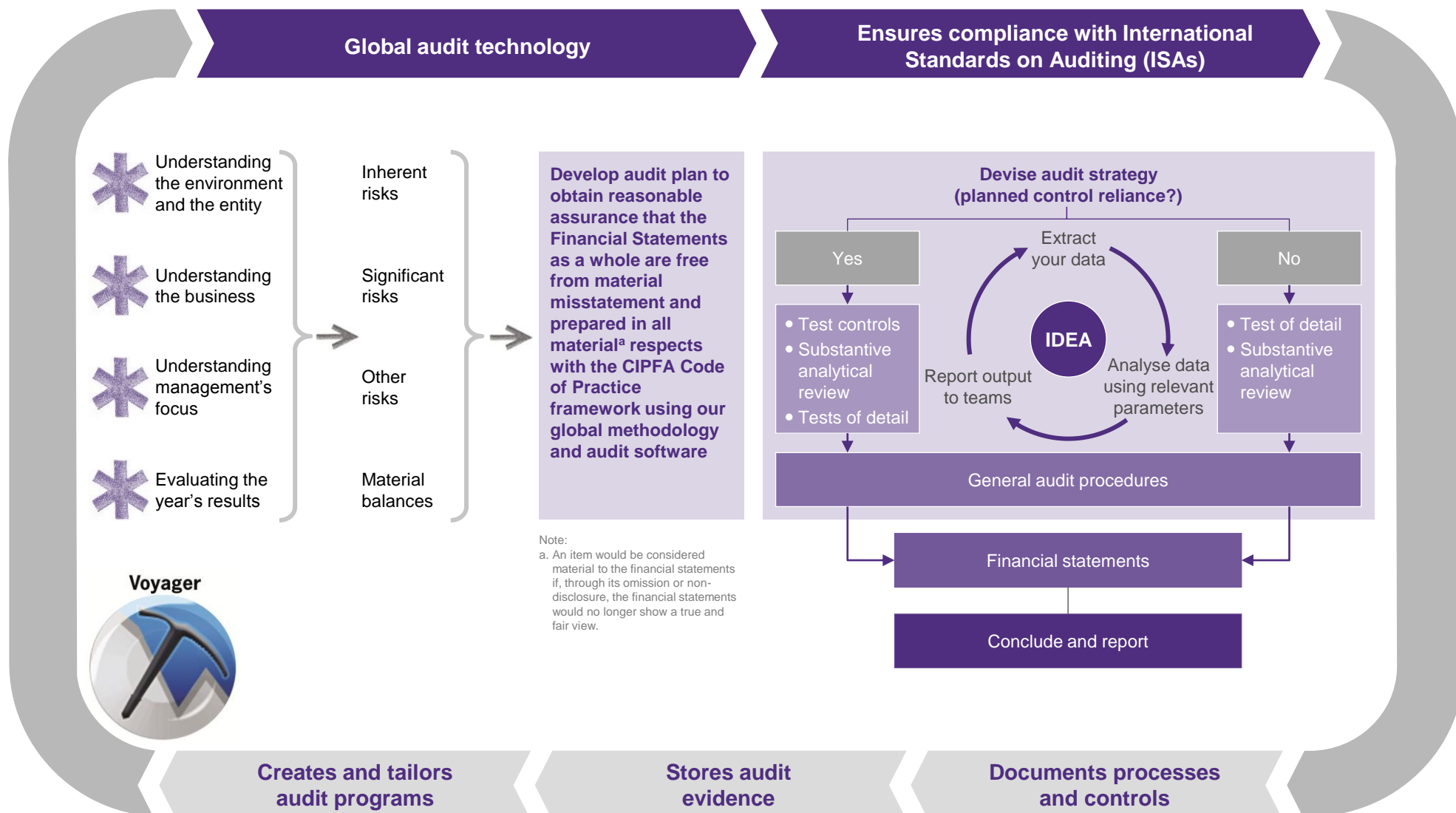
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none">• Changes to the CIPFA Code of Practice• Clarification of Code requirements around Property, Plant and Equipment (PPE) valuations• Changes to NDR accounting and provisions for business rate appeals• Transfer of assets to Academies	<ul style="list-style-type: none">• Local Government Finance settlement• Welfare Reform Act 2012	<ul style="list-style-type: none">• Annual Governance Statement (AGS)• Explanatory foreword	<ul style="list-style-type: none">• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)	<ul style="list-style-type: none">• Managing service provision with less resource• Progress against savings plans	<ul style="list-style-type: none">• The Council is required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion• The Council completes grant claims and returns on which audit certification is required

Our response

<p>We will ensure that</p> <ul style="list-style-type: none">• the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing• schools are accounted for correctly and in line with the latest guidance	<ul style="list-style-type: none">• 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	<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	<ul style="list-style-type: none">• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management	<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.	Work planned: <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.	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

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	Operating expenses understated	<ul style="list-style-type: none">Updated our understanding and documentation of the accounting system processes and key controlsWalkthrough of the key controls to determine controls are designed effectivelySubstantive testing of sample of expenses to ensure valid spend and appropriate categorisation for initial 8 months of financial year	<ul style="list-style-type: none">Substantive testing of additional sample of expenses to ensure valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none">Updated our understanding and documentation of the accounting system processes and key controlsWalkthrough of the key controls to determine if those controls are designed effectively	<ul style="list-style-type: none">Substantive testing of sample of creditors and accrued expenses including reviewing post year end invoices and payments
Employee remuneration	Employee remuneration not correct	<ul style="list-style-type: none">Documentation of our understanding of processes and key controls over the transaction cycleWalkthrough of the key controls to determine if those controls are designed effectivelySubstantive testing of sample of items of salary payments to staff records, pay rates and ledger classification covering initial eight months of financial year	<ul style="list-style-type: none">Substantive testing of additional sample of salary payments to employees covering final four months of financial year

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
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none">Updated our understanding and documentation of the accounting system processes and key controls	<ul style="list-style-type: none">Walkthrough of the key controls to determine if those controls are designed effectivelyCompletion of relevant modules of Audit Commission/Department for Work and Pensions programme of work for certification of claim - 'HB Count' modulesSubstantive testing of Council Tax benefit / eligibility for discount
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none">Updated our understanding and documentation of the accounting system processes and key controlsWalked through a sample item to confirm our understanding	<ul style="list-style-type: none">Substantive testing of additions / disposals .Test existence and ownership of assets to title deeds
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none">Updated our understanding and documentation of the accounting system processes and key controls	<ul style="list-style-type: none">Review the work of the Council's expert property valuer

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:

- review the Council against the financial resilience assessment criteria and understand any changes from the prior year
- analyse and comment on key performance indicators of financial resilience
- carry out a review of the Council's savings plans for 2014/15 to 2016/17
- review the Council's progress in addressing the issues raised in the Direction Notice and Ofsted report regarding arrangements for safeguarding children
- review the Council's work with its partners, with a particular focus on the joint work to implement the Better Care Fund.

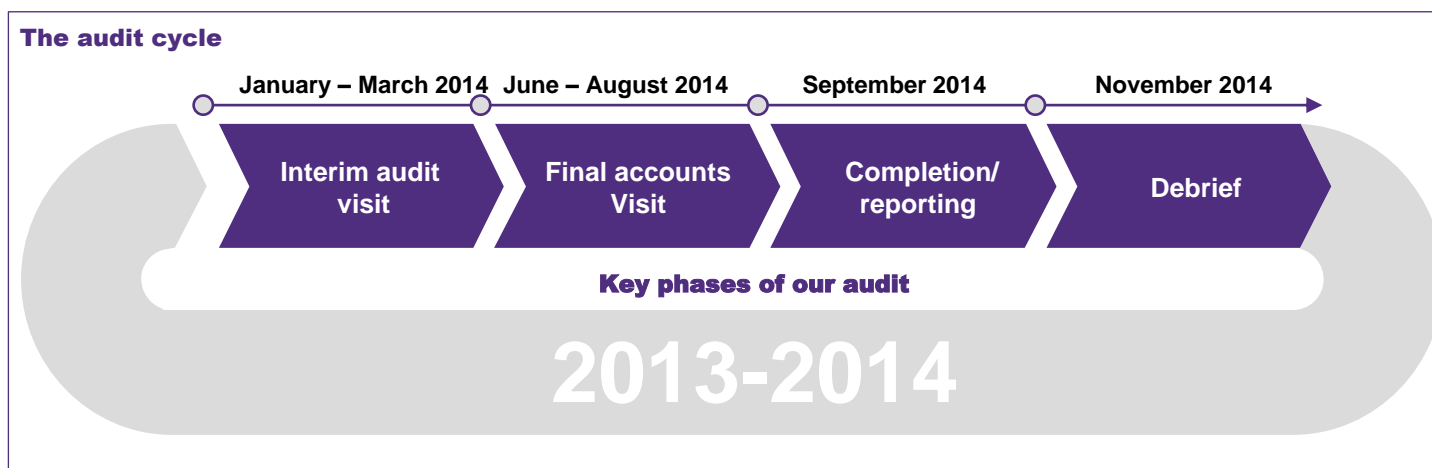
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

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 reviewed the scope of work undertaken by Internal Audit in 2013/14, reviewed interim reports on the core systems and considered the findings of other reports as necessary to inform our risk assessment.	Our review of internal audit work has not identified any issues which would impact on our audit approach.
Walkthrough testing	We are completing walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work to date has not identified any significant issues which impact on our audit approach.
Review of information technology controls	<p>Our information systems specialist is shortly due to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>We have already performed a follow up of the issues that were raised last year.</p>	<p>Our work to date has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We will review the findings of our information systems specialist and report any significant issues identified.</p>
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.	<p>We have not identified any issues from our work to date.</p> <p>We will undertake further testing of journals by extracting 'unusual' entries and testing underlying detail behind the journals.</p> <p>We will carry out testing of year-end journals as part of our final accounts visit.</p>
Early substantive testing	<p>We have performed substantive testing on a sample of salary payments to employees, covering eight months of the financial year.</p> <p>We have performed substantive testing on a sample of expenditure items, covering eight months of the financial year.</p>	<p>Our work has not identified any issues indicating potential problems with the accuracy of the financial statements</p> <p>We will undertake additional testing of salary payments, and expenditure items covering the remaining months of the financial year at our final accounts visit.</p>

Key dates



Date	Activity
February 2014	Planning
January – March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit Committee
June / July 2014	Year end fieldwork commences
August 2014	Audit findings clearance meeting with Head of Finance
September 2014	Report audit findings to those charged with governance (Audit Committee)
September 2014	Sign financial statements opinion
November 2014	Issue Annual Audit Letter

Fees and independence

Fees

	£
Council audit	163,085
Grant certification	27,500
Total fees (excluding VAT)	190,585

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		✓



© 2014 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