

# The Audit Plan for Calderdale Metropolitan Borough Council

**Year ended 31 March 2015**

5 March 2015

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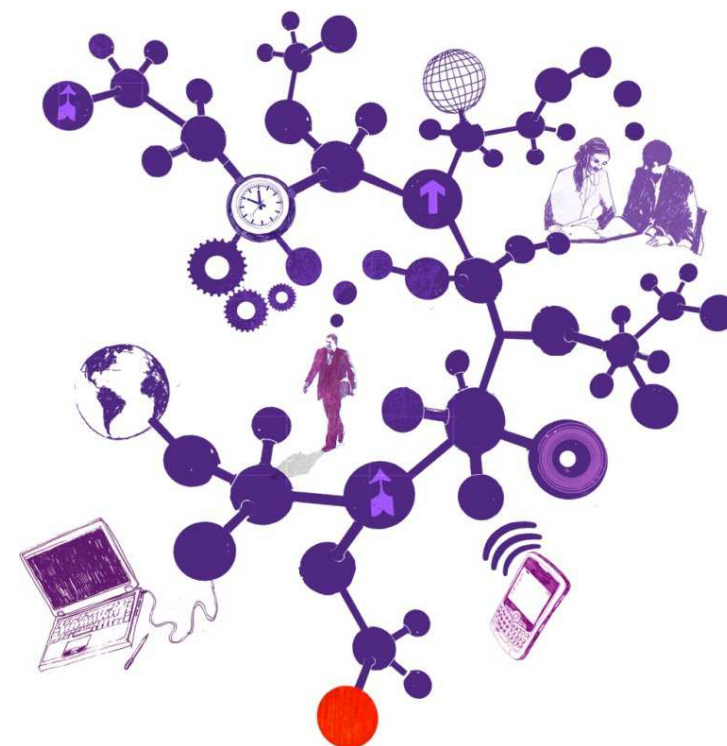
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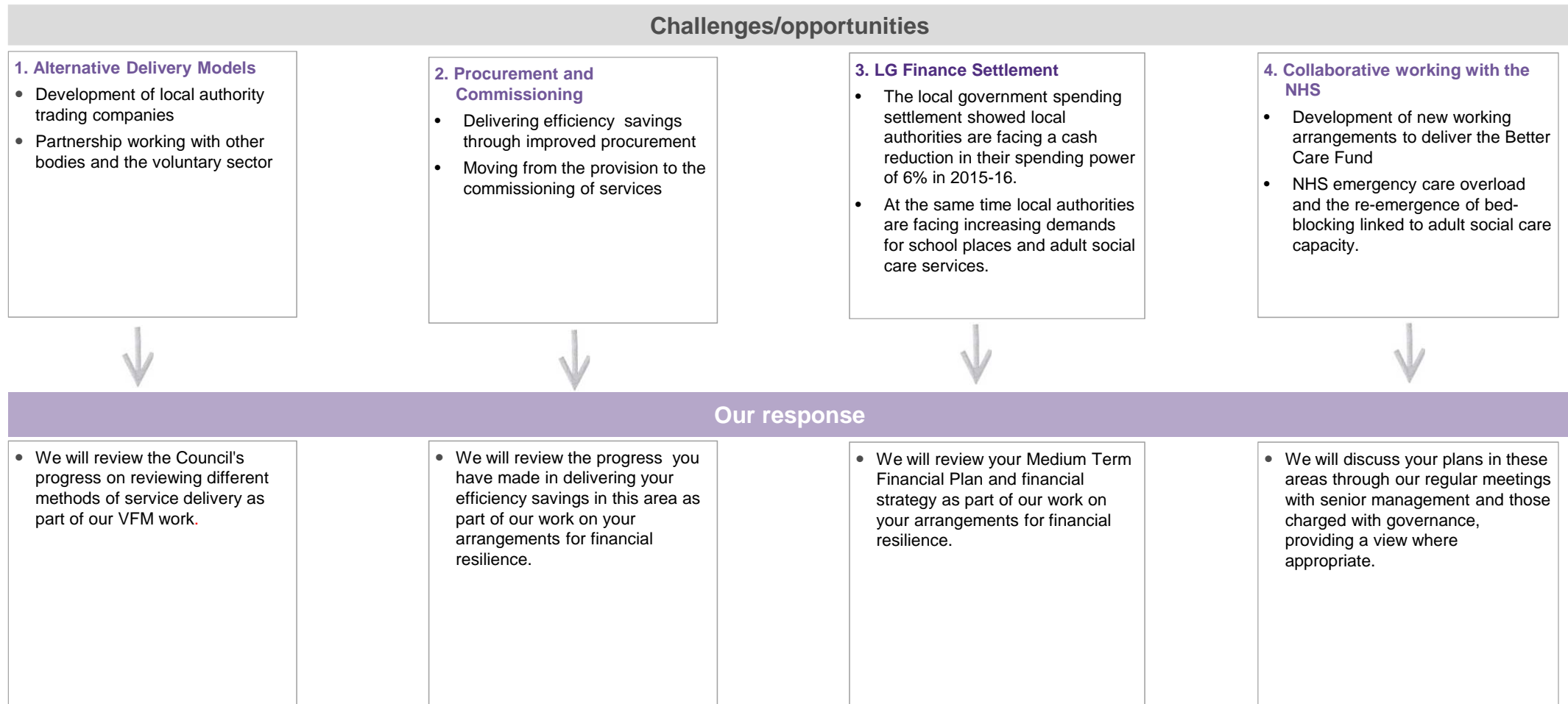
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

# 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.



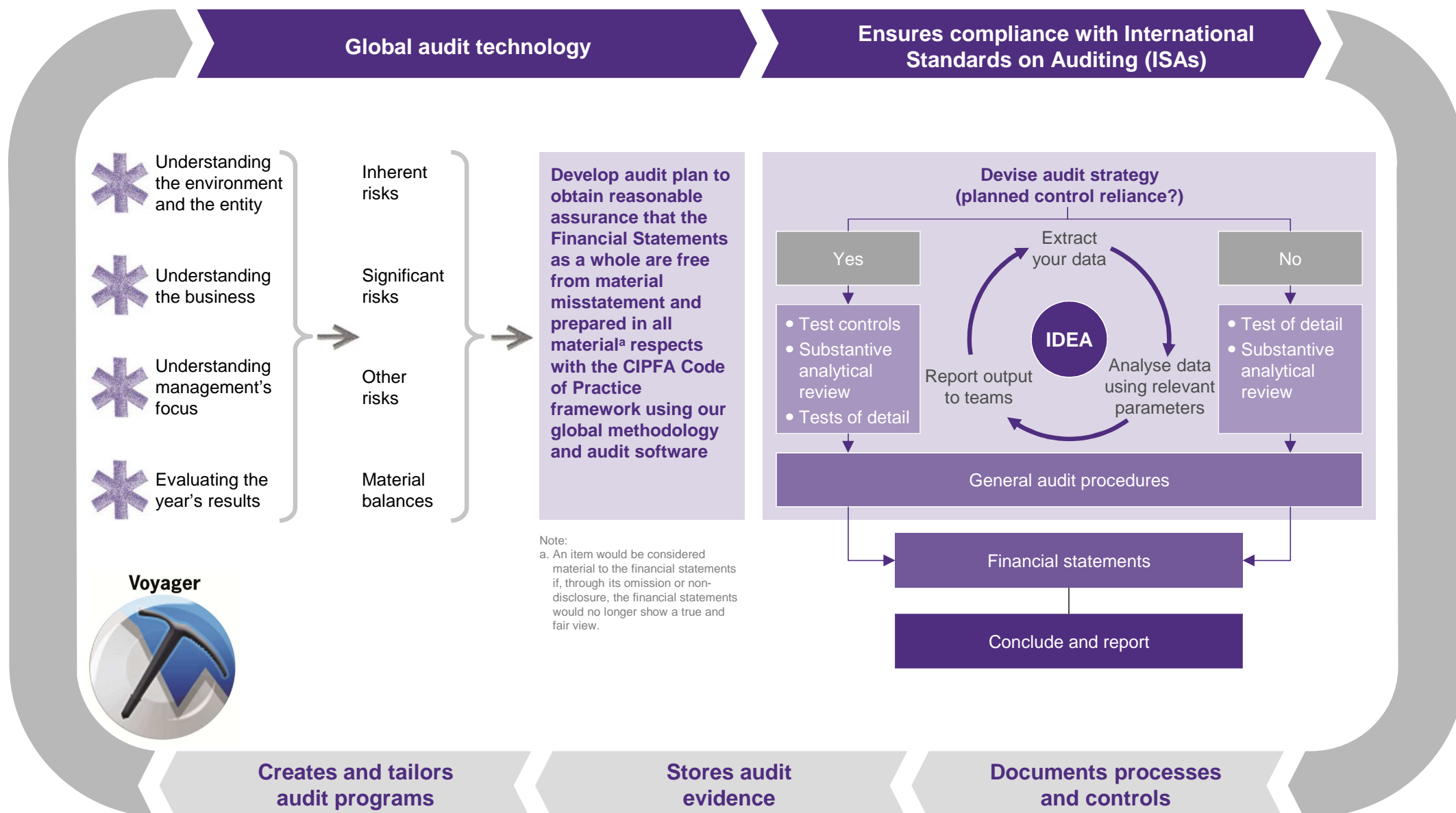
# Developments relevant to your business and the audit

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					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10, 11 and 12)</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<b>4. Better Care Fund</b> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VfM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>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.</li> </ul>

# Our audit approach



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# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental 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.

Significant risk	Description	Substantive audit procedures
Management over-ride of controls	Under ISA 240 the presumption is that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Review of proposed accounting estimates, judgements and decisions made by management to date,</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Final review of accounting estimates, judgments and decisions made by management</li><li>• Testing of remaining 3 months and year end journal entries</li><li>• Updated review of unusual significant transactions.</li></ul>

Under ISA 240 there is also a presumed significant risk that revenue may be misstated due to the improper recognition of revenue. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Calderdale Council, we have determined that the risk of fraud is not significant because there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited.

# 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)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Updated our understanding and documentation of the accounting system processes and key controls</li><li>Walkthrough of the key controls to determine whether controls are designed effectively</li></ul> <b>Further work planned:</b> <p>Substantive testing of sample of operating expenses and year end receivables / accruals to source documents to ensure valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement.</p>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Updated our understanding and documentation of the accounting system processes and key controls</li><li>Walkthrough of the key controls to determine whether controls are designed effectively</li></ul> <b>Further work planned:</b> <p>Testing monthly payroll reconciliations to confirm that payroll totals are accurately and completely recorded in the general ledger.</p> <p>Substantive testing of sample of employee remuneration, to confirm that employees exist, are paid correctly and are recorded in the general ledger. The testing will include enhancements and employer contributions.</p>
Welfare Expenditure	Welfare benefit expenditure improperly computed (Housing Benefit misstated)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Updated our understanding and documentation of the accounting system processes and key controls</li><li>Walkthrough of the key controls to determine whether controls are designed effectively</li></ul> <b>Further work planned:</b> <p>Substantive testing of welfare benefits in accordance with work required for the Council's Housing Benefit (BEN01) claim and review of controls to reconcile the financial ledger and housing benefit systems.</p>

## Other risks identified cont'd

Other risks	Description	Audit Approach
Accounting for Schools	<p>The Council is reviewing its accounting for school buildings in response to CIPFA's LAAP bulletin 101.</p> <p>Property Plant and Equipment may be understated or overstated.</p>	<p><b>Work completed to date:</b></p> <p>Regular discussions with Finance staff on preparations for:</p> <ul style="list-style-type: none"><li>• obtaining additional information from bodies such as local Trustee and Dioceses</li><li>• exercise of judgement over the recognition of school buildings; and where relevant</li><li>• obtaining financial valuations of those buildings to be recognised in the Council's financial statements</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management</li></ul>

### Other material balances and transactions

Under the International Standards for Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure". All other material balances will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Property Plant and Equipment
- Investment Property
- Investments
- Long Term and Short term Debtors
- Cash and Cash Equivalents
- Borrowing and other liabilities
- Council Tax
- Business Rates
- Grants Revenue
- Other Income
- Related Party Transactions
- Provisions

### Other Audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are appropriate.
- We will carry out work on the Whole of Government Accounts 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.



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# 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:

- update our review of the Council against the financial resilience assessment criteria;
- carry out a review of the Council's savings plans for 2015-16 to 2017-18;
- update our review of the Council's work with its partners, particularly on the developments on integration under the implementation of the Better Care Fund.; and
- review the Council's progress in implementing the actions set out in the Direction Notice issued by the Secretary of State regarding Children's Social Services.

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.

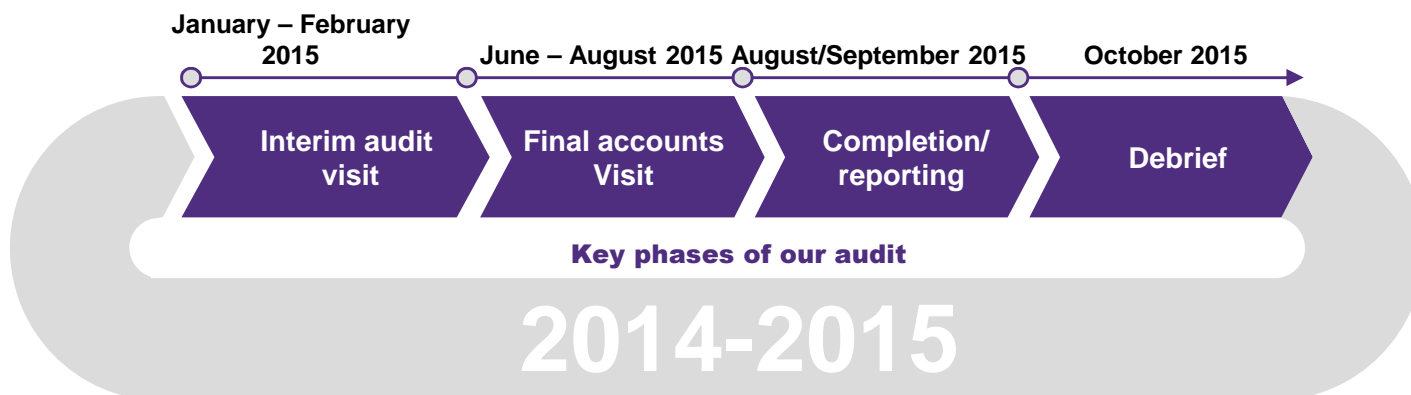
# Results of interim audit work

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
<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>
<b>Review of information technology controls</b>	<p>Our information systems specialist is currently performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We are also performing 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>
<b>Identification and evaluation of financial system controls</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. These are:</p> <ul style="list-style-type: none"><li>• Employee remuneration (Payroll)</li><li>• Operating expenses ( Payables/ Creditor Payments)</li><li>• Welfare Benefits (Housing Benefits)</li></ul>	<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 provide an update on the progress of our work in our regular briefings to the Audit Committee and in our Audit Findings Report.</p>
<b>Internal Audit</b>	<p>We have reviewed internal audit's overall arrangements.</p> <p>We will also review internal audit's work on the Council's key financial systems</p>	<p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach..</p>
<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.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>
<b>Early substantive testing</b>	<p>We have performed substantive testing of a sample of payments to employees covering the first 9 months of the financial 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>

# Key dates

## The audit cycle



Date	Activity
December 2014 – January 2015	Planning
January – February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
June – August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Head of Finance
August/September 2015	Report audit findings to those charged with governance (Audit Committee)
August/September 2015	Sign financial statements opinion

## Our Team

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# Fees and independence

## Fees

	£
Council audit	164,555
Grant certification	21,280
<b>Total fees (excluding VAT)</b>	<b>185,835</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 £
Teachers Pension return	TBA

### 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](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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