



The Audit Plan for Bromsgrove District Council

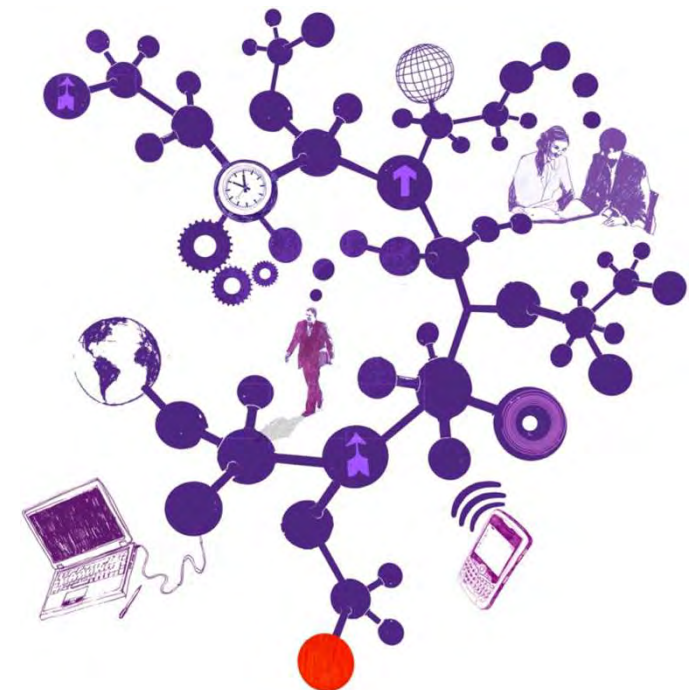
Year ended 31 March 2014

5 June 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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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. Financial Pressures

- In common with other councils, Bromsgrove is facing increasing financial pressures. The Council has responded to these challenges, and currently has good levels of balances. We reported last year that improvements were needed in the budget management arrangements.
- The Council is planning some large capital schemes going forward and good financial management will be key to the success of those projects.

2. Business Rate Pooling

- Localising of business rates means a transfer of risks from central government to the Council. This risk will have to be effectively managed to protect the Council's financial position.
- The Council has joined with the Greater Birmingham and Solihull Pool

3. Transformation

- The Council has recognised that alternative ways of service delivery are needed to both address the Council's financial challenges and to protect and improve services in the right places. This is an on-going project that cuts right across the Council

4. Housing Benefit /Council Tax changes

- Council tax benefit grant has been cut and the council has made decisions on benefit granted locally.
- In the future the current system of housing benefit will transfer to 'universal credit'. This will have a significant operational impact.
- The council has recently lost management capacity in the department which provides further risk in this challenging period

Our response

- We will undertake a review of Financial Resilience as part of our VFM conclusion. We will review the Council's medium term financial plan and consider whether improvements have been made in budgetary control to support the successful delivery of the plan.
- We will consider what arrangements the council is putting in place to successfully manage the capital schemes

- We will gain an understanding of the impact of the changes through our discussions with officers, providing support where appropriate.
- We will review the arrangements being put in place to estimate appeals and bad debts under the revised framework.

As part of our VFM conclusion we will:

- continue to monitor the Council's path to transformation.
- Where savings are specifically attributes to transformation in the MTFP we will consider how these are being identified and reported.

- We will consider the assumptions made in financial planning around the impact of these changes.
- We will consider the impact on the accounts and our audit approach of the change to council tax discount..
- we will complete our audit of the housing benefits subsidy claim, which will provide assurance to both the DWP and the Council that the benefits subsidy is being correctly determined.

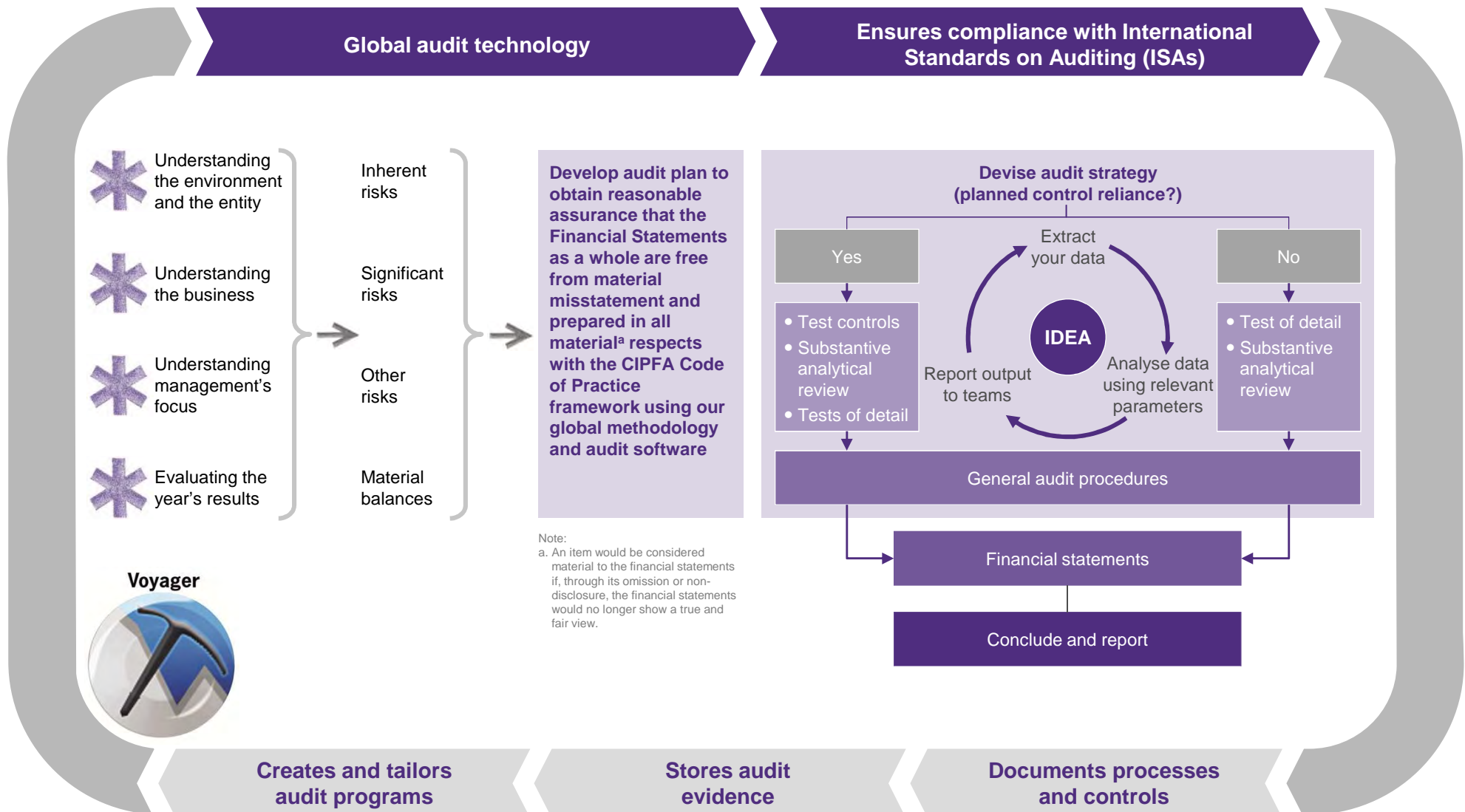
Developments relevant to your business and the audit

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					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • 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					
<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. 	<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. As in previous years, we are expecting that expenditure is below the threshold for a detailed audit to be required. • We have met with officers to discuss how production of the claim and the audit will be managed so that we are able to certify the HB grant claim 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 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: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries Further work planned: <ul style="list-style-type: none">• 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 (Completeness)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system 	We will carry out testing including: <ul style="list-style-type: none"> Cut off testing of purchase orders and goods received notes(both before and after year end) Review of the completeness of the reconciliations to the purchasing system.
Employee remuneration	Employee remuneration accrual understated (Completeness)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system We have reviewed the payroll exception reporting and reconciliations in year to gain assurance over the completeness of employee remuneration recorded in the General Ledger. 	We will carry out testing including: <ul style="list-style-type: none"> Review of 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. Carry out a monthly trend analysis of payments made through the payroll system
Welfare Expenditure	Welfare benefit expenditure improperly computed (Valuation)	<ul style="list-style-type: none"> We have conducted a walkthrough of the key controls for this system We have tested a sample of Council Tax Support for the period to end of February 2014 	<ul style="list-style-type: none"> We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim. We will perform further testing of Council Tax Support to cover the full 12 months

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

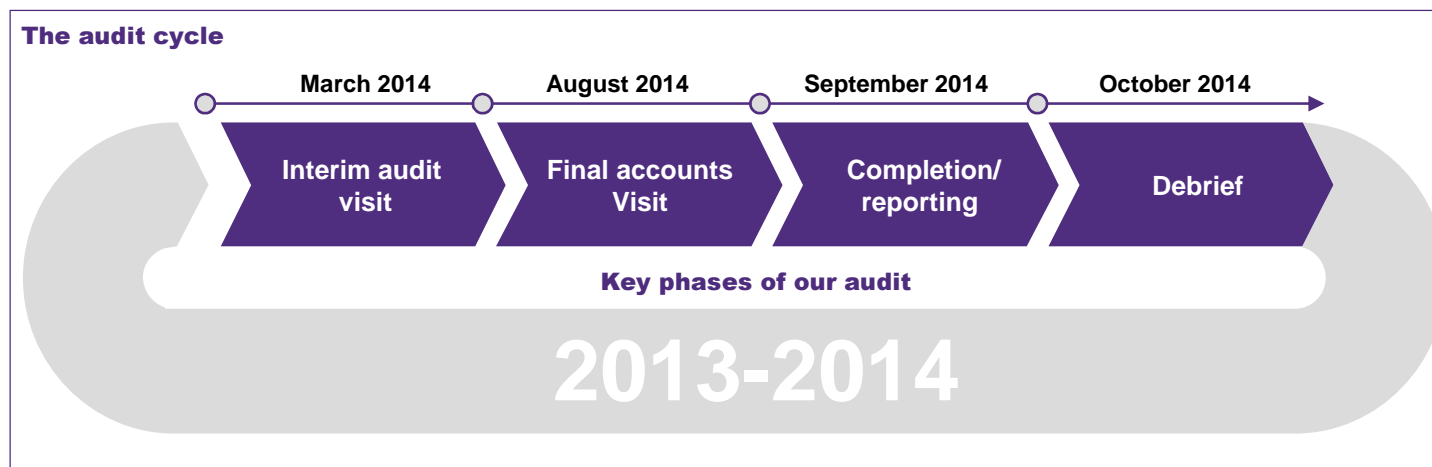
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Entity level controls	As part of our assessment of controls we review the council risk register and performance information	<p>The corporate risk register provided did not link directly with Council strategic priorities or contain clear actions for risk mitigation. We understand that the detailed risk register is being reviewed and therefore was not available to us at the interim visit.</p> <p>Quarterly financial reporting to Cabinet includes comparison of actual performance to budget, however budgets are adjusted for each quarter and do not directly report against the budget at the start of the year, so there is not consistent reporting of performance between quarters. However we noted that that in Q3, the narrative to support the budget variances was more detailed and informative than in previous quarters.</p> <p>We noted that the financial services manager has the ability to post journals, although has not done so in 13/14. You should consider whether this is appropriate.</p>
Internal audit	<p>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.</p> <p>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. Much of the work on the key financial systems was in progress at our interim audit and we will therefore review these reports when they are available.</p>	<p>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.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
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 weaknesses that we need to report to those charged with governance or which impact on our audit approach.
Review of information technology controls	<p>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.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work did not identify any weakness that we need to report to those charged with governance. Some more minor deficiencies have been identified and have been reported to management.

Results of Interim Work (cont)

	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.	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: <ul style="list-style-type: none"> • Testing of a sample of employee remuneration for M1-11 to underlying payroll and HR records • Testing a sample of operating expenditure to supporting documents (e.g. invoices and payment details) • Testing a sample of Council Tax Support to benefit calculations and supporting evidence held on the academy system 	This work is on-going at the date of this report and we will carry out further work in these areas as part of our year end procedures. To date we have not identified any errors or weakness from this testing.
Value for money	We have undertaken an initial risk assessment. This assessment builds on our findings from the 2012/13 VFM conclusion supplemented by discussions with officers and review of committee papers. We have also reviewed the Audit Commission financial profiles to identify an outliers. We have also reviewed the corporate risk register and sought information on performance measures.	<p>We will:</p> <ul style="list-style-type: none"> • Follow up the matters raised in the 12/13 VFM conclusion • Consider the Council's progress towards implementing our recommendations and addressing the Council's on-going financial risks.. <p>At the time of our interim work the risk register was incomplete and did not clearly map to council strategic priorities. No information on performance measures were available for review – so we will follow these matters up in June when we undertake our detailed work.</p> <p>In view of the future financial commitments to capital schemes, we will undertake a high level review of planning around these projects.</p>

Key dates



Date	Activity
March 2014	Planning
March 2014	Interim site visit
April 2014	Presentation of audit plan to Audit Committee
July/August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with the Executive Director of Finance and Resources
September 2014	Report audit findings to those charged with governance (Cabinet)
September 2014	Sign financial statements opinion and issue our VFM conclusion.

Fees and independence

Fees

	£
Council audit	64,006
Grant certification	3,872*
Total fees (excluding VAT)	67,878
* Published fee is further reduced to reflect the reduction in work anticipated around council tax benefits.	

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	n/a

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

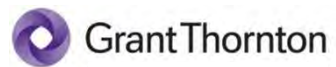
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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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