



The Audit Plan for Bromsgrove District Council

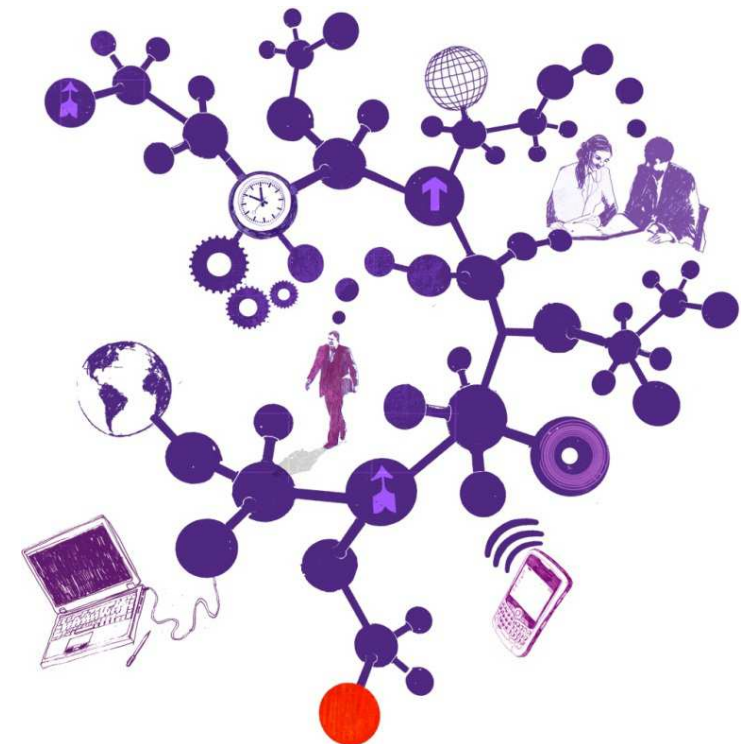
Year ended 31 March 2015

March 2015

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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. Alternative Delivery Models

- Consideration of alternative ways of providing services including reviewing existing and considering new partnership arrangements.

2. Procurement and Commissioning

- Delivering efficiency savings through service reviews and improved procurement.

3. 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 Bromsgrove, the settlement has resulted in a reduction in spending power of 1.3%, and a reduction over all grants of £500k.
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Our response

- We will discuss with you developments as the Council reviews its services. We will provide a view on any proposals as requested.

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

- We will discuss with you how these regional developments are likely to impact on Bromsgrove Council in the future and the impact on your medium term plans.

- As reported in our Annual Audit Letter, the Council has good levels of balances to provide some resilience over the coming financial years. However the Council recognises that changes to how the Council operates and savings must be made to have a sustainable financial and operational plan for the future.
- We will review your Medium Term Financial Plan 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
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Financial Pressures

- 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 grant claims and returns. Only the Housing Subsidy return now requires certification by your auditors.

5. Capital programme

- The Council will be moving into Parkside during 2015/16. The Council will no longer need the existing Council house there are a number of other capital schemes that are under development.

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
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

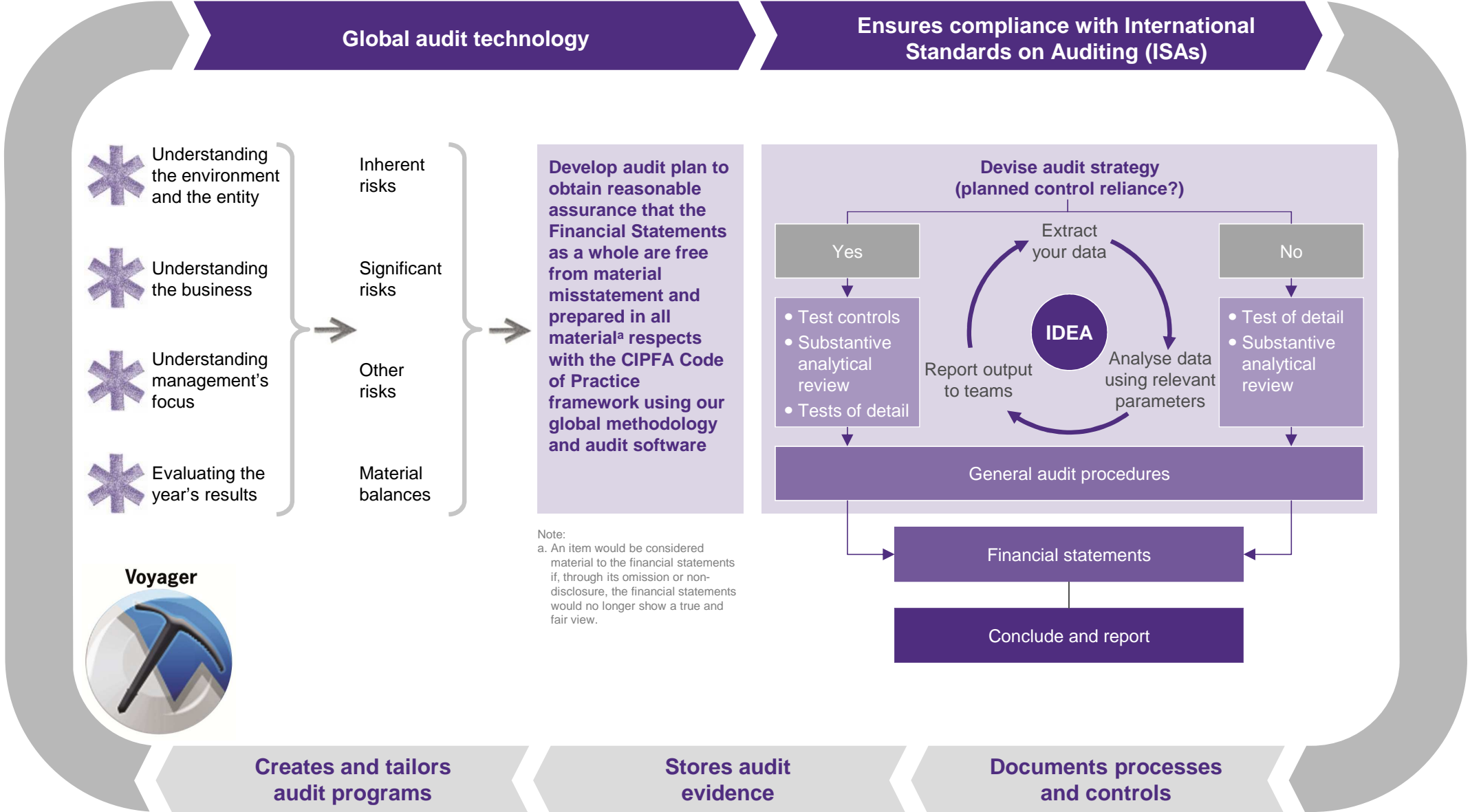
- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against 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 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.

- These schemes present several challenges to the Council including achieving best price for disposal and development of capital assets that can support the delivery of council priorities in a financially sustainable way. We will consider how the council is developing these plans as part of our VfM work.
- There are some accounting matters associated with the valuation of these assets which should be reflected in the accounts. We will follow this up with officers in the course of the audit.

Our audit approach



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

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 Bromsgrove District 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 Bromsgrove District 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 • Review of unusual significant transactions <p>Further work planned:</p> <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

We have identified a number of risks that are relevant to this financial year and have planned substantive procedures, as this is judged the most effective way to address the risks.

Other risks	Description	Substantive audit procedures
<p><i>Valuation of Bromsgrove Council House</i></p>	<p>It is expected that in June 2015 the Council House will cease to be operational as the remaining staff transfer to the Parkside development. Whilst this is after the year end we consider that this may have implications for the 2014/15 accounts due to the significant value of the asset. As a minimum a disclosure to the accounts will be required.</p> <p>The Council house will cease to be classified as an operational asset and as such it will need to be revalued. This valuation could be significantly different to its current carrying value in the accounts of the authority.</p> <p>The asset life of the asset used as a basis of depreciation and the need for a significant impairment will be other considerations.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review of valuations, which will include a review of impairments, and the basis of those valuations from the professional valuer • Review of the Terms of engagement regarding the professional valuer
<p><i>Payroll Manager</i></p>	<p>A payroll manager is not currently in post. In our assessment of the payroll system, this is highlighted as a 'new risk' to us in terms of the operation system. Payroll costs are a significant item of expenditure in the accounts and therefore, in our judgement, it is necessary to undertake additional procedures to have comfort on the operation of the payroll system for the full financial year.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review of payroll reconciliation for the period where the Payroll Manager is not in post • Review of exception reporting and the follow up of any exceptions identified • Trend analysis of payroll costs and the investigation of any unexpected variances

Other risks identified

We have identified a number of risks that are specific to this financial year and have planned substantive procedures, as this is judged the most effective way to address the risks.

Other risk	Description	Substantive audit procedures
<i>Parkside Development</i>	<p>In the 13/14 financial statements there was a nominal amount in the books reflecting the ownership of the current building. Parkside will be almost complete at the year end and the Council will pay for 50% of the building costs which are currently being managed by the County Council. This raises a number of accounting issues:</p> <ol style="list-style-type: none"> 1) The valuation to be reflected in the 14/15 financial statements. The accounting treatment should be consistent with that of the County Council 2) If there is a significant difference between the cost and valuation when the offices are occupied then this could be an 'Event After the Balance Sheet Date' 	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review of valuations and the basis of those valuations from the professional valuer • Review of the Terms of engagement regarding the professional valuer • Consistency check with County Council auditors
<i>Implementation of new ledger</i>	<p>The authority is introducing a new general ledger system. The go live date is 17th February. This is a substantial project for the finance team. As this is occurring part way through the year, all of the transactions from the old system will need to be accurately transferred to the new system to ensure that the information on which the accounts are based is complete and reflects the entire financial year. Clear audit trails will still need to be available to allow us to test complete populations.</p> <p>We had recommended that internal audit should be involved in testing the adequacy of the data transfer and to provide the Council with assurance that the project was on track and that the new system is implemented and operating as intended. This recommendation has not been acted upon.</p>	<p>Further work planned:</p> <ul style="list-style-type: none"> • Agreement that balances have transferred accurately and completely from the 'old' ledger to new by review of the opening and closing trial balance • IT tests of data transfer.

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)	<p>Work completed:</p> <ul style="list-style-type: none"> • Documentation of our understanding of the accruals process <p>Further work planned:</p> <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. • Testing for unrecorded liabilities
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Further work planned:</p> <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 and May to ensure payroll expenditure is recorded in the correct year • Carry out a monthly trend analysis of payments made through the payroll system. • Agree a sample of payroll costs to contracts of employment/manager confirmation and ensure the employer costs have been accurately calculated
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Further work planned:</p> <ul style="list-style-type: none"> • Agree benefit expenditure for each type of benefit to the benefits system • Reconcile benefit expenditure to the final subsidy claim • We will carry out testing in accordance with the methodology required to certify the Housing Benefit subsidy claim

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Bromsgrove Arts Development Trust (Artrix)	Yes	Targeted	Valuation of Artrix Building	Reliance on an expert in relation to the Artrix valuation. Confirmation from Bromsgrove Arts Development Trustees in relation to income and expenditure transactions.

Targeted – the group audit team identified one or more potential risks of material misstatement and has determined that audit procedures at the component level are needed to respond to the risk(s). The group audit team selects this approach whenever sufficient appropriate audit evidence for the audit of the group can be obtained by performing audit procedures that respond to the identified risk(s). Audit procedures being targeted by auditing either an account balance, class of transactions or disclosures

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 an initial assessment to identify areas of risk to our VfM conclusion. These will be considered further as part of our detailed risk assessment (and our findings reported in our Audit Findings Report in September). The assessment builds on our findings from the 2013/14 VfM conclusion supplemented by key document reviews. As part of this assessment we have reviewed the corporate risk register, medium term financial plan and in year performance monitoring. This work has identified the following VfM risks that we will be investigated further through further review of the MTFP, discussion with officers and review of relevant documentation:

- Financial and corporate planning processes should be integrated and link to risk management arrangements. Risk management should be embedded as a management tool.
- Robust information should be available on the costs incurred in delivering services and activities, including back-office functions, and the drivers that influence or change these costs should be clear.
- Budget monitoring and reporting arrangements should be fit-for-purpose and enable management and members to understand in a timely manner the risks to financial delivery and how these are being managed.
- Cost reduction plans should be supported by cost-benefit analysis, options appraisal or cost information.
- Savings plans should be clear and achievement properly disclosed as part of out-turn reports. It should be clear what savings are managed and those that are fortuitous.
- Whilst reserves are adequate for the current medium term financial plan, reliance on reserves to support general fund expenditure is not sustainable in the longer term.
- Capital schemes such as Parkside and the leisure centre have revenue implications that should be reflected in the medium term financial plan.

Value for money

We will undertake work in the following areas to address the risks identified:

- consider the planning assumptions in the budget for 14/15 and 15/16 and progress towards developing a medium term financial plan.
- Review the outturn for the 2014/15 financial year including the delivery of planned savings
- consider the links between the Councils financial planning and the strategic planning of the Council
- Consider how the Council is managing its financial risks
- Consider the progress the Council is making on its significant capital projects and how these are reflected in the MTFP.

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 our first interim audit/second interim plans

We started our interim work in January 2015. We plan to complete that interim visit in April 2015. This is partly to bring forward some of our substantive testing from the summer peak, but also to undertake additional procedures in relation to the implementation of a the new ledger. The findings of our first interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below. We also summarise the work we will be undertaking at our second interim in later sections of this report.

	Work performed and findings	Conclusion
Internal audit	<p>We have undertaken a high level review of internal audit's overall arrangements. 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. Their work programme was not complete at the time of our review and so we will complete this work at our second interim visit.</p>	<p>Overall, we have concluded that the internal audit service is adequate</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach. We will conclude more fully at the completion of our second interim.</p>
Walkthrough testing	<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 Operating Expenditure, Employee Remuneration and Welfare Benefits</p> <p>Our work has not identified any issues which we wish to bring to your attention in relation to the Operating Expenditure and Welfare Benefit walkthroughs</p> <p>There is currently no Payroll Manager in post. This poses additional risk regarding the payroll function.</p>	<p>Additional audit procedures will be required for Payroll to ensure adequate reconciliation and review controls are in place. This has been detailed earlier in the report and procedures will be undertaken at our second interim and final accounts visit.</p>
Entity level controls	<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"> • 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 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>However, our work has highlighted that many of the Council's policies and procedures are out of date. This includes financial regulations and fraud policies. It may well be that significant changes are not required, however it is proper practice that such significant polices should be subject to a planned and regular review. This matter was raised last year.</p> <p>Similarly, last year we raised that the corporate risk register was not being used effectively. The most up to date risk register provided at our interim visit this year was dated March 2014, suggesting that it is still not being used as a relevant management tool. Completion of departmental risk registers is variable.</p>

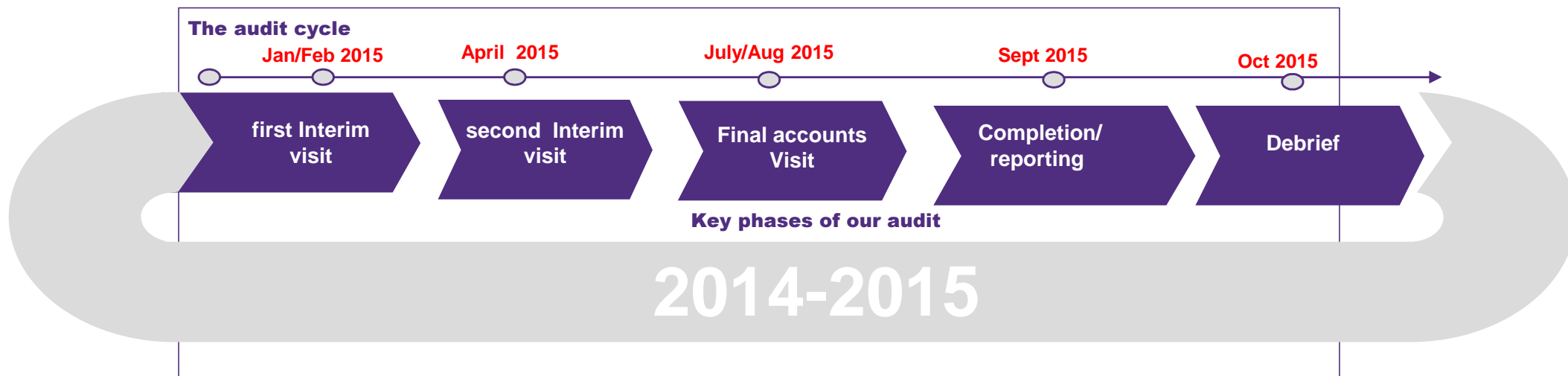
Results of our first interim audit /second interim plans (continued)

	Work performed	Conclusion
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. Some recommendations have been made which are currently with your management for response.</p> <p>Our IT systems specialist was unable to provide assurance that the ledger transfer project would be completed by the go-live date scheduled for 17 and 18 February. We are since aware that this transfer has taken place and a risk relating to this has already been raised as additional audit procedures will be required</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>However we have identified a risk in relation to the implementation of the new ledger system. This has already been detailed within the 'other risks''</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>At our second interim and final accounts visits we will complete our testing of journals, including specific review of whether senior officers have input journals.</p>

Results of our first interim audit /second interim plans (continued)

	Work performed	Conclusion
Early substantive testing	Agreement of opening balances as at 1 st April 2014 to prior year closing balances.	<p>We have confirmed opening balances have been correctly rolled forward into the current financial year.</p> <p>As part of our second interim visit in April 2015 we plan to complete the following testing:</p> <ul style="list-style-type: none"> • Payroll deductions testing and trend analysis • Operating expenditure testing • Grant income testing • Other operating income testing • Assessment of journal control environment and testing • Testing to confirm balances have been transferred to the new ledger system appropriately • Property, plant and equipment opening balance testing
Value for money	<p>We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. The assessment builds on our findings from the 2013/14 VFM conclusion supplemented by key document reviews. This includes:</p> <ul style="list-style-type: none"> ▪ Review of cabinet/council minutes ▪ Review of technical guidance ▪ Review of the Medium Term Financial Plan ▪ Review of corporate risk register ▪ Review of in year financial monitoring arrangements ▪ Review of internal audit reports 	Additional detailed review will be completed as part of our financial statements audit.

Key dates



Date	Activity
December 2014	Planning
January/February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
April 2015	Second interim visit – review of ledger implementation and early substantive work.
July/August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Resources
September 2015	Report audit findings to those charged with governance (Audit Board)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	64,906
Grant certification	10,060
Total fees (excluding VAT)	74,966

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

As highlighted above, the fee assumption is that there have been no significant changes. The Council is implementing a new ledger in year. We regard this as a significant change and additional audit procedures are planned to be undertaken. Additional work will be discussed with your officers in advance. It is likely that a fee variation will be requested as a result of any additional work undertaken. This will be assessed on completion of the audit.

Fees for other services

Service	Fees £
None	Nil

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

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		✓



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