



# The Audit Plan for Bromsgrove District Council

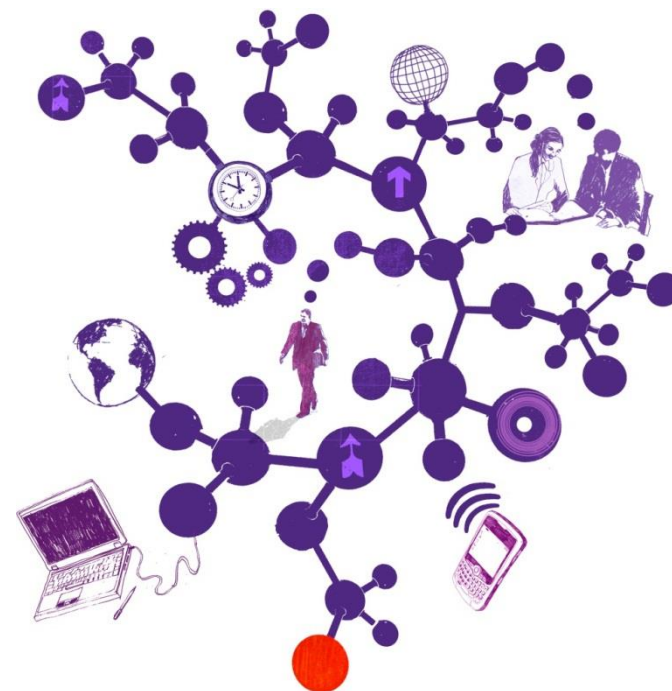
**Year ending 31 March 2016**

March 2016

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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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24<sup>th</sup> March 2016

Dear Members of the Audit Standards and Governance Committee

### **Audit Plan for Bromsgrove District Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Bromsgrove District Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Richard Percival  
Engagement Lead

#### **Chartered Accountants**

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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. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.

### 2. Shortfall in the MTFs

- The MTFs presented at the February Cabinet meeting showed that despite substantial savings plan there was a reliance on the use of reserves and a financial shortfall from 2017/18 onwards.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The devolution proposal for West Midlands Combined Authority has been agreed and the new organisation is in the process of being set up
- Bromsgrove DC is a member of the Birmingham and Solihull LEP but has decided not to be a member of the Combined Authority

### 5. Section 11 Recommendations

- We made four formal recommendations to the Council under our statutory powers on completion of our 2014/15 audit.
- These related to accounts production and budget setting and monitoring.

## Our response

- We will consider the impact of the changes in funding and the Council's plans for addressing its financial challenges as part of our work on the VFM conclusion.

- We will consider how savings delivery is being monitored and reported as part of our work to reach our value for money conclusion.
- Our regular meetings with the Executive Director of Finance include briefings on progress with delivering the MTFs, including additional actions to close the gap from 2017/18 onwards.

- We will review the Council's arrangements for working with partners as partners as part of the VFM conclusion.
- We will also maintain a watching brief on the development of the devolution agenda and how it impacts on the Council.

- We will review your responses to the Section 11 recommendations
- We will support the Executive Director of Finance and her team in improving the accounts production process.
- We will review progress made with the implementation of all four of our recommendations as part of this year's audit.

## Developments and other requirements relevant to your 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 and associated guidance.

### Developments and other requirements

#### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.

#### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Report, which reports on your financial performance and use of resources in the year. This replaces the explanatory foreword in the financial statements.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

#### 3. VFM conclusion

- We are required to satisfy ourselves that you have achieved economy, effectiveness and efficiency in your use of resources
- The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015
- There are three revised criteria (see page 11 for details)

#### Housing Benefits

- The Council completes the Housing Benefit grant claim on which audit certification is required.
- With the deadline for the publication and the audit opinion being bought forward to July for the year 2017/2018 the work on the claim will not be completed in time.

#### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

### Our response

- We are discussing the impact of IFRS 13 and the planned approach to valuation of these assets with the Executive Director of Finance and her team.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

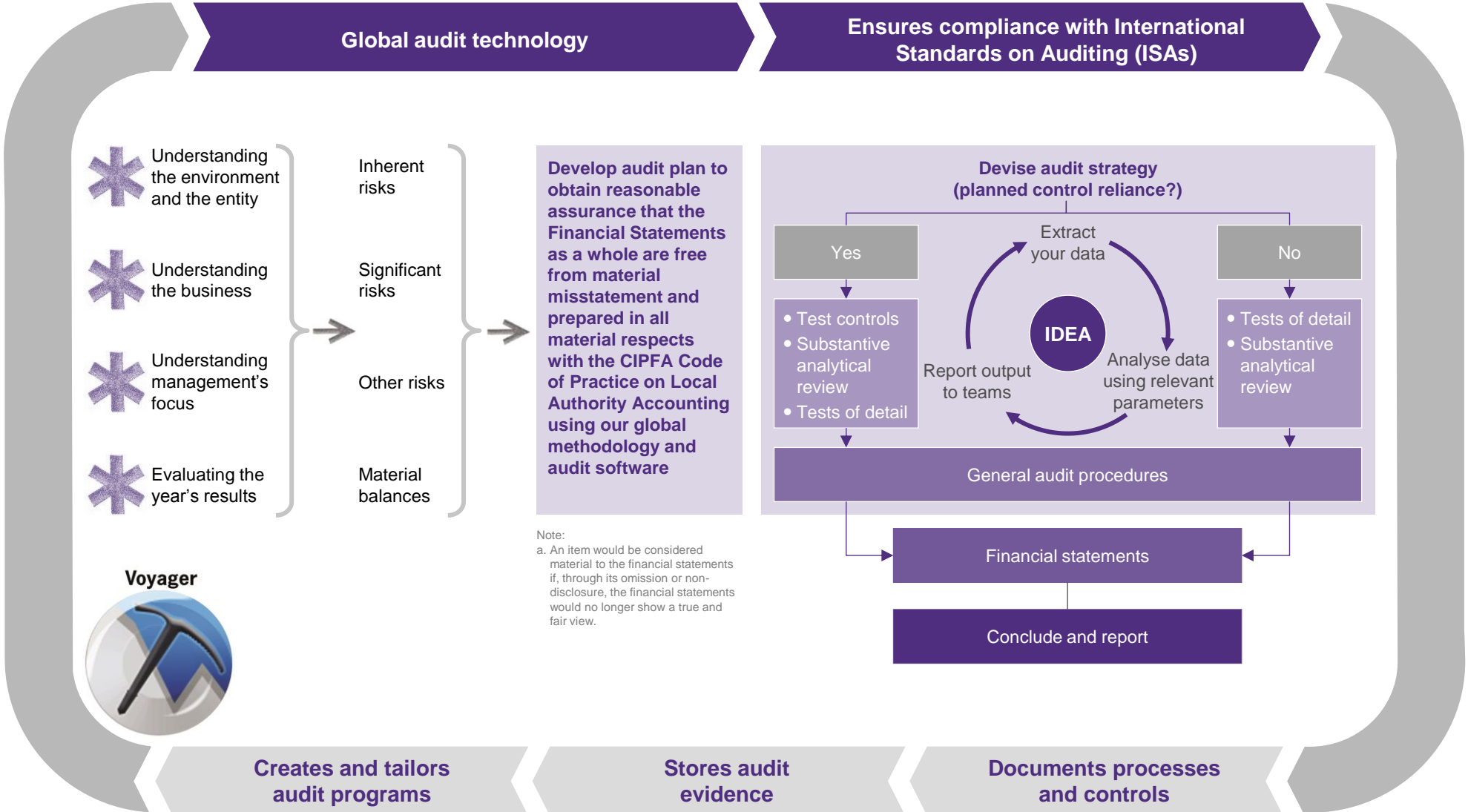
- We will review your Narrative Report to ensure it reflects the requirements of the CIPFA Code of Practice
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will complete a risk assessment and review the Council's arrangements for securing economy, efficiency and effectiveness for these risks.

- We will complete the certification work in line with HB COUNT as prescribed by the DWP.
- For the accounts we are working with the Council on obtaining our assurance by reviewing payments.

- As part of your improvement planning we are working with the Executive Director of Finance and her team to identify areas of your accounts production that can be undertaken earlier
- We aim to complete all substantive work in our audit of your financial statements by the end of August 2016 as part of a two year process.

# 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.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £672,000 (being 1.5% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £34,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related Parties	Due to public interest in these disclosures and the statutory requirement for them to be made



## 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.

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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Bromsgrove District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgements and decisions made by management.</li> <li>• Determining our journal testing strategy</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Production of the 2015/16 financial statements	<p>The issues with accounts production in 2014/15 resulted in material inaccuracies in the draft accounts. We have therefore concluded that there is a potential risk of material misstatement in the 2015/16 accounts if the improvements are not effectively implemented.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will examine the accounts closedown process and the controls in place to ensure materially accurate accounts are produced</li> <li>• Regular and early discussions with the finance team on the key accounting issues</li> <li>• Review of the detailed closedown plan</li> </ul>

## Significant risks (continued)

Significant risk	Description	Substantive audit procedures
Valuation of Parkside	During 2015/15 the Council moved into the refurbished Parkside. The Council paid half of the refurbishment costs which were managed by the County Council. The 2015/16 the financial statements need to account for this arrangement in accordance with the CIPFA Code and relevant accounting standards. The asset needs to be valued on the appropriate basis	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will examine the controls in place to ensure that an appropriate accounting treatment is adopted and the carrying value is materially accurate</li> <li>• Examine title deeds and other legal documentation</li> <li>• Review the instructions to the valuer</li> <li>• Agree the value included in the financial statements to the valuers report</li> </ul>
Valuation of Bromsgrove Council Offices	At 31 March 2016 the Council's old offices will be classified as a surplus asset, as they are no longer operational. The new accounting standard, IFRS 13, will apply and the asset needs to be revalued on a 'highest and best use' basis. This valuation could be significantly different to its current carrying value.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will examine the controls in place to ensure materially accurate valuation is produced</li> <li>• Review the instructions to the valuer</li> <li>• Agree the value included in the financial statements to the valuers report</li> </ul>

## 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 (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors related to core activities understated or not recorded in the correct period	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have conducted a walkthrough of the key controls for this system</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will search for unrecorded liabilities by reviewing payments after the year end</li> <li>• We will review the Council's accruals process and test according (including goods receipted)</li> <li>• Where GRNI's are material, testing will be undertaken to identify unaccrued items.</li> </ul>
Employee remuneration	Employee remuneration and benefits obligations and expenses understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have conducted a walkthrough of the key controls for this system.</li> <li>• We have completed a trend analysis on employee remuneration covering the period up to January 2016.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review the reconciliation of the payroll system to the general ledger</li> <li>• We will complete our trend analysis for the full 2015/2016 year.</li> </ul>

## Other risks identified (continued)

### Other material balances and transactions

Under International Standards on 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 and transaction streams 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 Properties
- Assets held for sale
- Short and Long Term Debtors
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

### Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

## 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 Group (Artrix)	Yes	<ul style="list-style-type: none"> <li>Targeted</li> </ul>	<ul style="list-style-type: none"> <li>Valuation of Artrix Building</li> </ul>	<ul style="list-style-type: none"> <li>Reliance on an expert in relation to the Artrix valuations.</li> <li>Confirmation form Bromsgrove Arts Development Trustees in relation to income and expenditure.</li> </ul>

# Value for Money

## Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

## Value for Money (continued)

### Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

### Reporting

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 include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

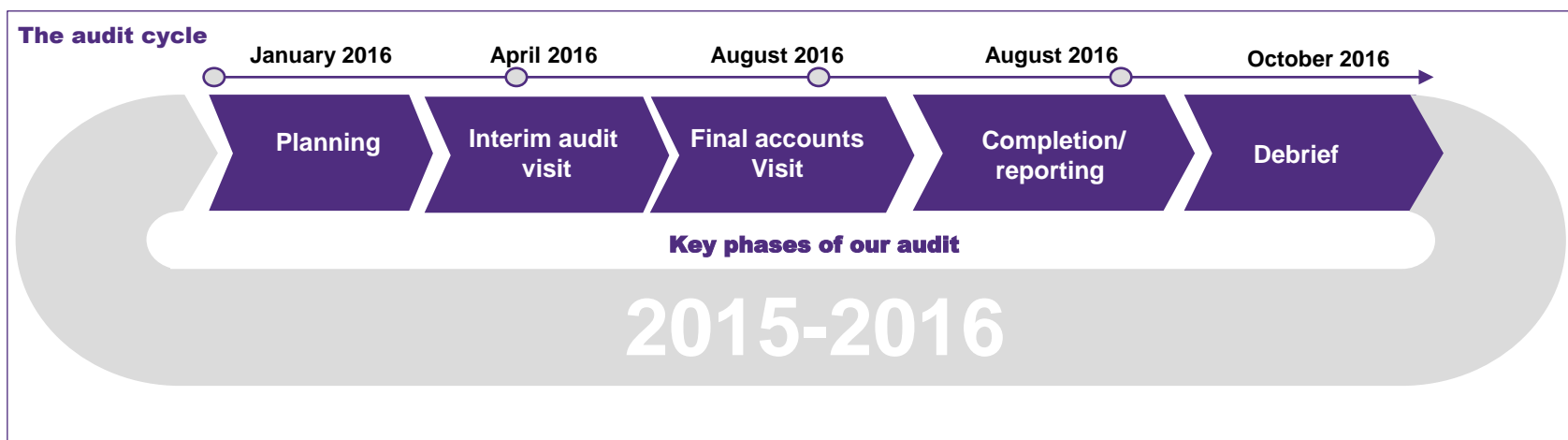
## Results of interim audit work

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

	<b>Work performed</b>	<b>Conclusion</b>
<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>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
<b>Review of information technology controls</b>	We are carrying out a high level review of the general IT control environment, as part of the overall review of the internal control system.	Our specialists will complete this testing in March 2016 and we will report any significant matters to the Audit Standards and Governance Committee
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	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.	We have not identified any concerns surrounding journals from our documentation of journal controls.



# Key dates



Date	Activity
January 2016	Planning
April 2016	Interim site visit
24 March 2016	Presentation of audit plan to Audit, Governance and Standards Committee
25 July – 29 August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Executive Director of Finance
September 2016	Report audit findings to those charged with governance (Audit, Governance and Standards Committee)
September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit 2015/16	48,680
Additional fee for 2014/15 audit work *	TBC
Grant certification	8,760
<b>Total audit fees (excluding VAT)</b>	<b>57,440</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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

\*Due to the additional work required on the 2014/15 audit we have submitted a fee variation to PSAA of £9,150.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- 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. There were no fees for other services at the time of drafting 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 requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 issues 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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