



The Audit Plan for North Somerset Council

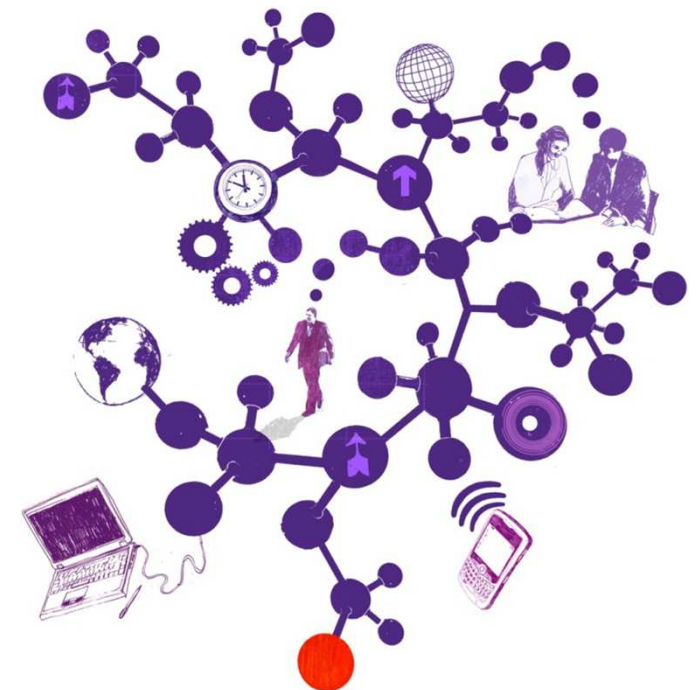
Year ended 31 March 2014

10 April 2014

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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. Maintaining financial resilience

- The Council continues to face significant financial challenges over the medium term.
- In 2013/14, the Council is forecasting that it will deliver a balanced revenue budget, despite significant cost and service pressures.
- 2014/15 is the fourth year of the Council's Medium Term Financial Plan (MTFP). The Council plans to deliver £11.5 million of savings of which £10.8 million has already been identified.
- The Council reported that it will have delivered £63.1 million of cost savings in the period 2011/12 to 2014/15. For the period 2015/16 to 2017/18 it estimates that it will have to deliver a further £38 million of cost savings, of which £22 million is still to be identified.

2. Local Governance Finance Act

- From 1 April 2013 council tax benefit was replaced with a local Council Tax Support Scheme.
- Business Rates retention was implemented from 1 April 2013. The Council has been working with other councils in the West of England to formulate a scheme (the City Deal) which will allow them to keep 100% of growth in business rates over 25 years to invest in projects

3. The joint local transport plan (Rapid Transport Project)

- The rapid transport programme is a major project aiming to improve transport access across Bristol and North Somerset.
- This is a major procurement project and is being run by the Local Enterprise Partnership.
- North Somerset Council is the lead for the Weston package totalling £15m and the joint £45m Bristol package.

4. Safeguarding

- The Council's 2012/13 Annual Governance Statement (AGS) reported two significant control risks in relation to safeguarding in schools and vulnerable persons.
- A number of mitigating actions are in place including:
 - The North Somerset Safeguarding Children Board have put in a two year rolling check and test programme
 - The Council in partnership with NHS North Somerset ensures that every care home and domiciliary provider is subject to regular contract monitoring arrangements, including safeguarding and compliance visits.

5. Value for Money

- The June 2013 Spending Round announced that the Government would put £3.8 billion into a pooled budget in 2015/16 to ensure closer integration between health and social care.
- The Better Care Fund (BCF) is a means by which resources are moved from the NHS to local authority social care.
- Local authorities and health partners are required to develop integrated care plans.

Our response

- We will monitor progress against the Council's Medium Term Financial Plan and review progress in achieving savings plans.
- We will review the Council's arrangements for ensuring financial resilience covering:
 - strategic financial planning
 - financial governance
 - financial control.

- As part of our Value for Money work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes.
- We will discuss and review the accounting impact of these changes with the finance team.

- As part of our Value for Money work we will monitor progress and gain an understanding of the arrangements in place.

- We will monitor progress and review the 2013/14 Annual Governance Statement.
- We will review the reports issued by other inspectorates and regulators and consider the Council's response.

- We will consider progress in integrating health and social care through the Better Care Fund agenda as part of our work in reaching our VfM conclusion

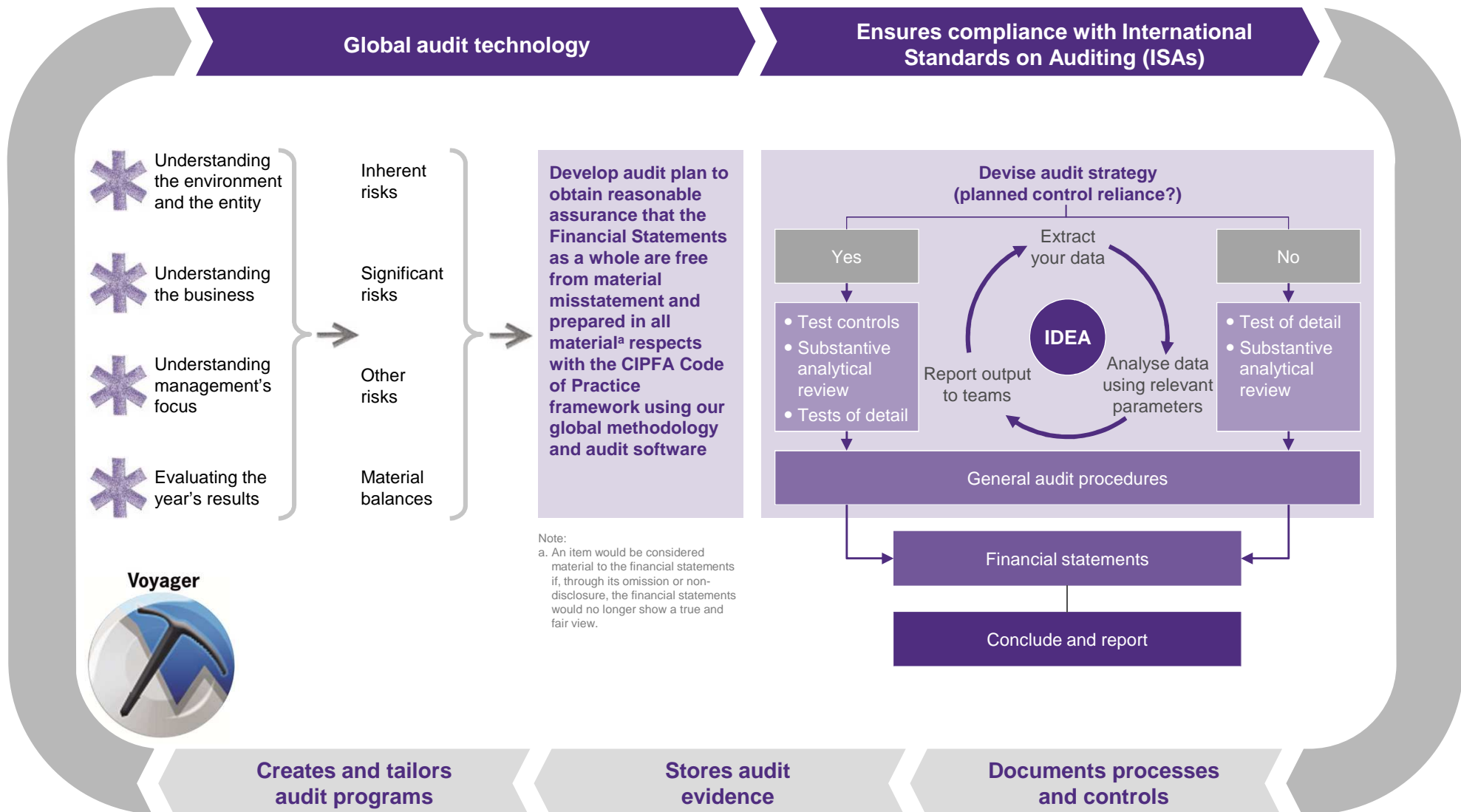
Developments relevant to your business and the audit

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 NNDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<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

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management and a review of the entries in your draft 2013/14 financial statements. 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Initial review of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Initial review of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of unusual significant transactions • Testing of journal entries

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 (Including SWIFT and SIMs)	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Walkthrough of internal controls relating to operating expenses and creditors 	<ul style="list-style-type: none"> Reconciling the operating expenses figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and the subsidiary accounts system Review for unrecorded liabilities through, for example, review of payments made after the year end Review of the accrual process for goods received notes not invoiced and unmatched purchase orders to ensure these have been included in year end accruals
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> Walkthrough of internal financial controls relating to employee remuneration 	<ul style="list-style-type: none"> Reconciling the payroll figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system A trend analysis of monthly payroll data to identify and unusual variances on which additional audit procedures may be required Review of payroll accrual processes and substantive testing of any significant payroll creditors Review of pensions disclosures and agreement to underlying evidence for completeness and accuracy Review of senior managers remuneration, salary banding and exit packages disclosures, for completeness and accuracy

Other risks identified (continued)

Other reasonably possible risks	Description	Work completed to date	Further work planned
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Walkthrough of internal financial controls relating to welfare expenditure 	<ul style="list-style-type: none"> Review of the reconciliation of benefit expenditure per the final subsidy claim to the general ledger and to the benefits system We will undertake the audit of the Council's Housing Benefit subsidy grant claim, in line with the Audit Commission's 'HB COUNT' audit approach. This involves testing of the Council's arrangements for the preparation of the subsidy claim, and a sample of benefit claims to ensure benefit entitlement has been correctly calculated, and is adequately supported by evidence. For a sample of Council Tax support cases in the year, we will undertake testing to ensure that CT support has been correctly calculated in line with the Council's scheme, and is adequately supported by evidence.
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Walkthrough of internal financial controls relating to capital expenditure 	<ul style="list-style-type: none"> Comparison of capital additions to the capital programme, and consideration of variances identified. Sample testing of capital expenditure (including PPE additions and REFCUS) to source documentation to ensure asset expenditure is valid to capitalise, and has been depreciated appropriately.
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Walkthrough of internal financial controls relating to capital expenditure Review of the qualifications of the Council's in-house valuer. 	<ul style="list-style-type: none"> For a sample of assets revalued during the period, we will agree revaluations and impairments to the valuer's valuations, and determine whether the accounting for the revaluation has been appropriate. For assets that were not revalued during the period, review the work undertaken by officers to confirm that valuations held in the accounts remain materially correct.

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

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 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:

Area of focus	Work planned
Savings plans setting & monitoring	We will monitor progress against the Council's Medium Term Financial Plan and review progress in achieving savings plans
Safeguarding children and vulnerable adults	We will monitor progress and review the 2013/14 Annual Governance Statement We will review the reports issued by other inspectorates and regulators and consider the Council's response
The joint local transport plan (Rapid Transport Project)	As part of our Value for Money work we will monitor progress and gain an understanding of the arrangements in place
Local Council Tax Scheme	As part of our Value for Money work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes
City Deal	As part of our Value for Money work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes.
Better Care Fund	We will consider progress in integrating health and social care through the Better Care Fund agenda as part of our work in reaching our VfM conclusion

Results of interim audit work

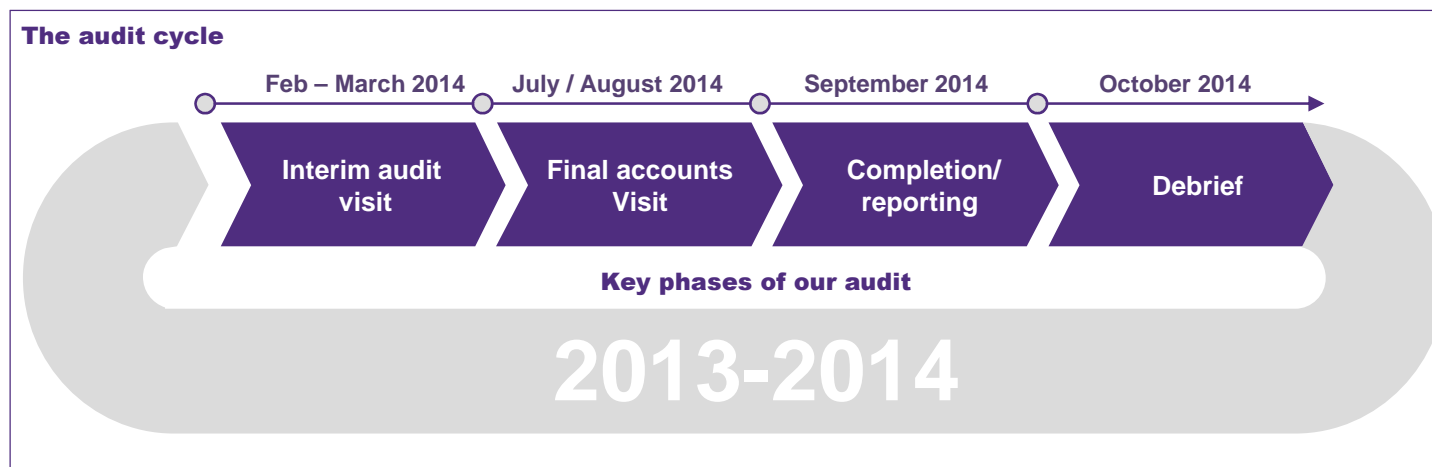
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<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.</p> <p>Our work will be concluded when they have:</p> <ul style="list-style-type: none"> • completed the 2013/14 Internal Audit Plan • prepared a Head of Internal Audit Opinion. 	<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	<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.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist is scheduled to performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.</p>	<p>Our work is outstanding at the time (March) of preparing our Audit Plan. We will be able to provide a verbal update by the time of the Audit Committee meeting in June.</p>

Results of interim audit work (continued)

	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.	Overall we have concluded that the Council has reasonable controls over the input of journals.
Testing of payroll payments raised to month 10	We have undertaken a sample of payroll payments posted to expenditure in months 1 to 10 to ensure that they relate to the valid employees of the Council, are correctly coded and have been paid in line with their post / contract of employment.	No issues have been identified that require reporting. We will complete testing of payroll payments raised between month 11 and the year end as part of our year end testing.

Key dates



Date	Activity
December 2013	Planning meetings
February - March 2014	Interim site visit
June 2014	Presentation of audit plan to Audit Committee
July – August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Head of Financial Management
10 September 2014	Report audit findings to those charged with governance (Audit Committee)
30 September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	148,230
Grant certification *	22,200
Total fees (excluding VAT)	170,430

* This fee may be subject to revision by the Audit Commission.

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 £
Provision of due diligence work in relation to the proposed Snowdome project	9,750

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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