



# The Audit Plan for Ribble Valley Borough Council

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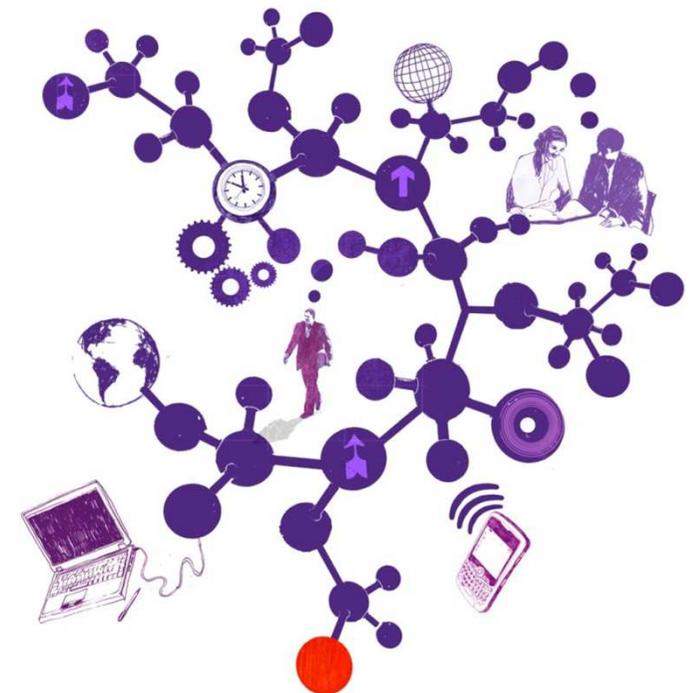
**Year ended 31 March 2014**

16 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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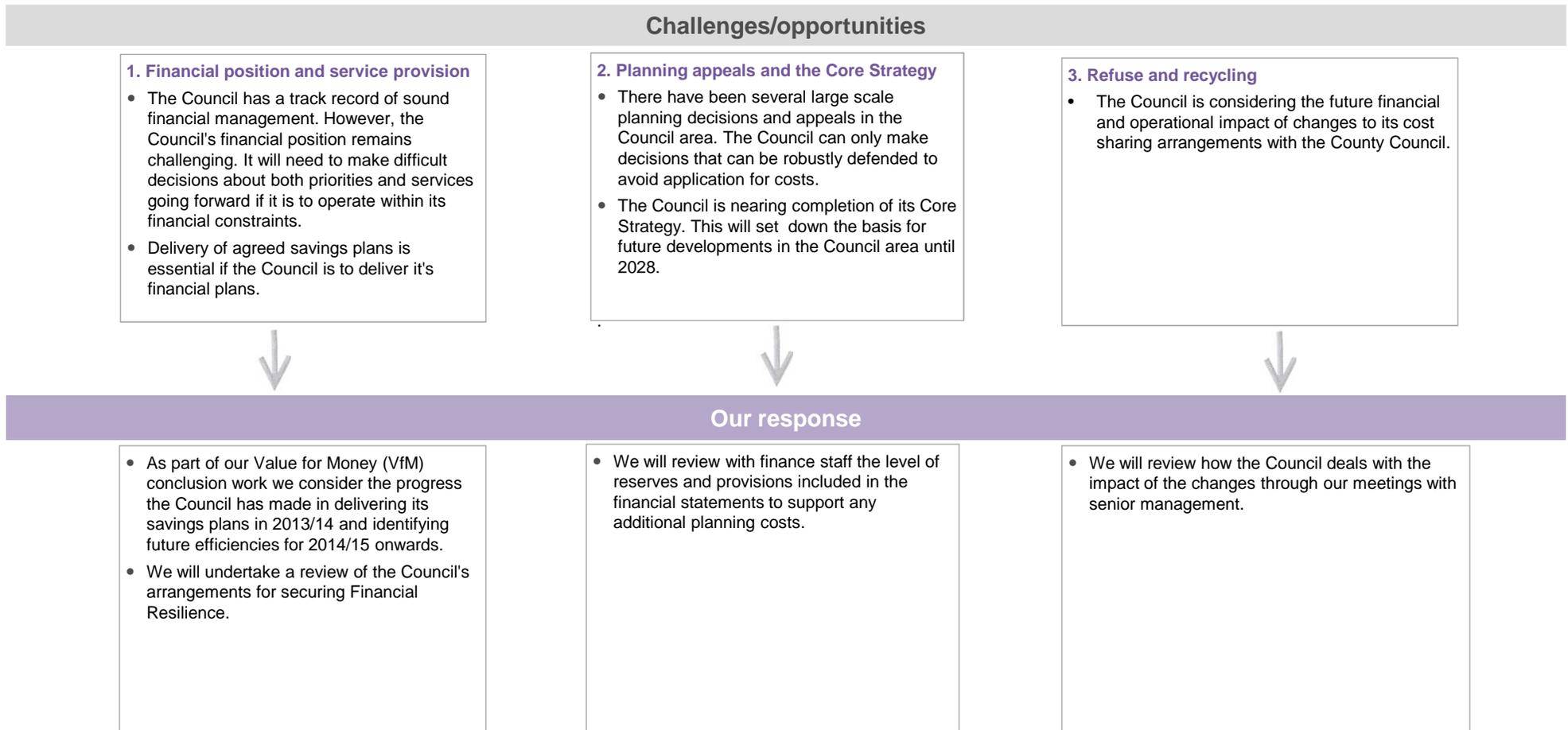
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# Understanding your business

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.



# 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

- CIPFA has issued some clarification guidance to the Code of Practice requirements around Property, Plant and Equipment (PPE) valuations.
- There are significant changes to NNDR accounting and provisions for business rates appeals in 2013/14.

### 2. Legislation

- Local Government Finance settlement.
- Welfare Reform Act 2012.

### 3. Corporate governance

- Annual Governance Statement (AGS) and the explanatory foreword to the accounts.

### 4. Pensions

- The impact of 2013/14 changes to the Local Government Pension Scheme (LGPS).

### 5. Other requirements

- The Council is required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion.
- The Council completes grant claims and returns on which audit certification is required.

## Our response

- We will work with finance staff and the valuer to review the Council's PPE valuation approach and check whether the PPE valuation in the accounts is materially correct.
- We will work with finance staff to review the changes to NNDR accounting and the impact on the collection fund. We will also review the provision for business rates appeals included in the accounts to ensure it is in line with accounting standards.

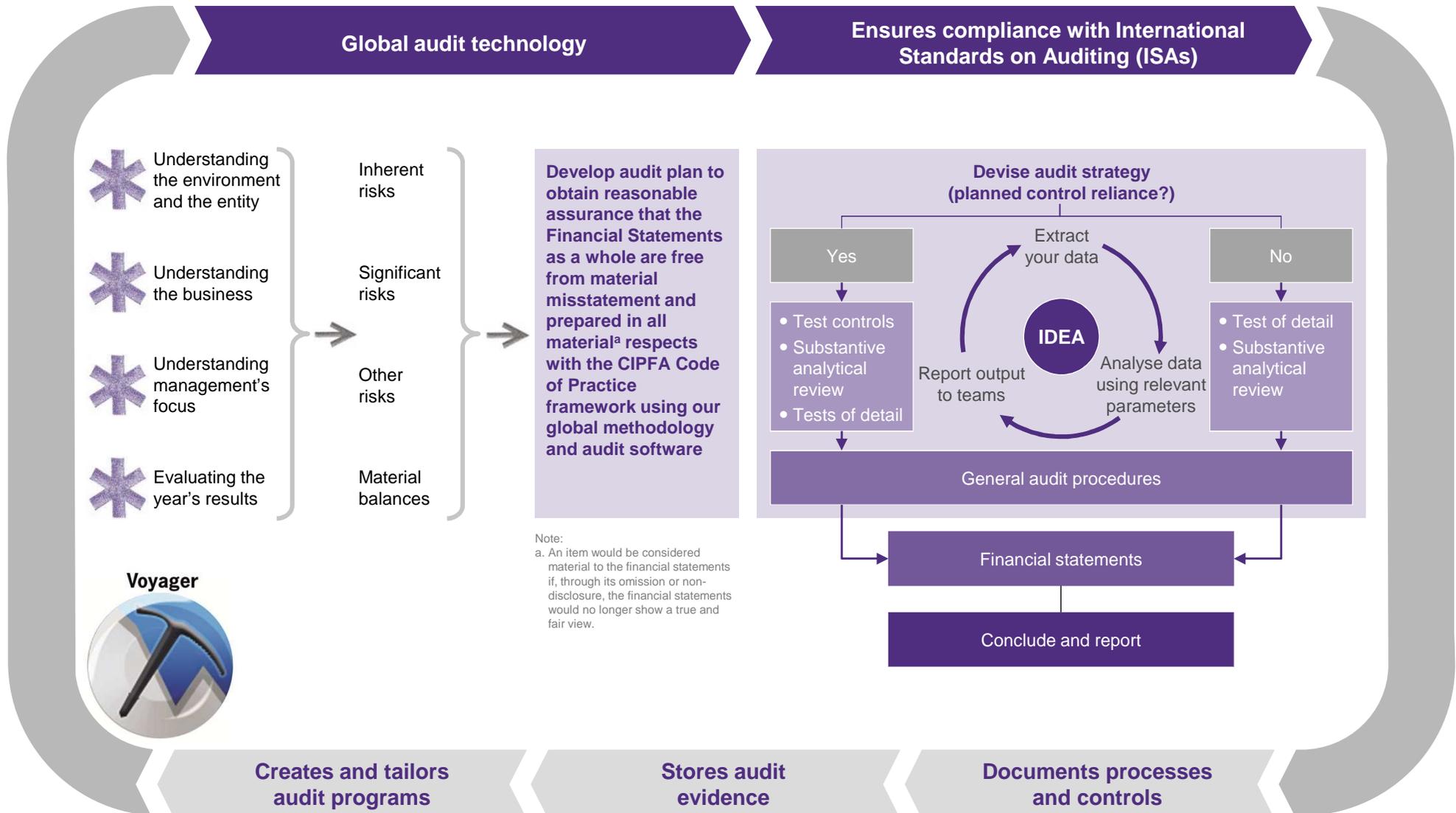
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management.

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

- We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management.

- 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><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Initial review of revenue recognition policies.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Final review and testing of revenue recognition policies.</li> <li>• Performance of substantive testing on material revenue streams.</li> </ul>
Management over-ride of controls	Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Preliminary review of accounting estimates, judgments and decisions made by management.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Final review of accounting estimates, judgments and decisions made by management.</li> <li>• Testing of journal entries for the year.</li> <li>• Review of unusual significant transactions.</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 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	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work.	During our final accounts audit we will perform substantive testing to gain assurance that: <ul style="list-style-type: none"> <li>operating expenses relating to 2013/14 are correctly classified and included in the Council's accounts; and</li> <li>creditors and accruals relating to 2013/14 are correctly classified and included in the Council's accounts.</li> </ul>
Employee remuneration	Employee remuneration accrual understated	We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We have tested an initial sample of payroll costs to gain assurance that employees have been remunerated at the correct rates during 2013/14. No issues were identified as a result of this work.	During our final accounts audit we will perform substantive testing to gain assurance that employee remuneration relating to 2013/14 is correctly classified and included in the Council's accounts.
Welfare Expenditure	Welfare benefit expenditure improperly computed	We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work.	During our final accounts audit we will carry out substantive testing of the housing benefits claim form via use of workbooks and testing of the entries in the accounts.

## Other risks identified (continued)

Other risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment	<p>Revaluation measurement not correct</p> <p>Changes to the CIPFA Code of Practice requirements around Property, Plant and Equipment (PPE) valuations from 2013/14 onwards</p>	<p>As the revaluation controls apply to year end, we will complete this during our final accounts audit visit.</p> <p>We have discussed the changes with Council officers and have gained an understanding of how the Council is planning to ensure the PPE valuation is materially correct.</p>	<p>During our final accounts audit we will:</p> <ul style="list-style-type: none"> <li>• complete the revaluation controls walkthrough testing</li> <li>• carry out substantive testing of capital expenditure in the year and the accounting treatment for major capital projects; and</li> <li>• review the Council's PPE valuation approach to ensure the PPE valuation in the accounts is materially correct.</li> </ul>
Business Rates	<p>Changes to NNDR accounting and provisions for business rates appeals</p>	<p>We have discussed the changes with Council officers and have gained an understanding of how the Council is addressing the requirements.</p>	<p>During our final accounts audit we will review the changes to NNDR accounting and the impact on the collection fund.</p> <p>We will review any provision or contingent liability for business rates appeals included in the accounts to ensure the estimate is in line with accounting standards.</p>

## 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>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>Our work on internal audit has not identified any issues which we wish to bring to your attention.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, as follows:</p> <ul style="list-style-type: none"> <li>• Employee remuneration.</li> <li>• Operating expenses.</li> <li>• Property, Plant and Equipment.</li> <li>• Welfare benefits.</li> </ul> <p>For Property, Plant and Equipment we have not been able to walkthrough some of the revaluation controls. This is because the exercise has yet to be carried out. We will cover this as part of the year end audit.</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>
<b>Review of information technology controls</b>	<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.</p>	<p>Our IT controls work has not identified any weaknesses which impact on our audit approach.</p> <p>Following this review there are a small number of recommendations to bring to your attention. These are noted in the Action Plan at Appendix A.</p>

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	This will be completed at our final accounts audit visit.
<b>Early substantive testing</b>	<p>In order to reduce the workload for both the Council and ourselves at the final accounts audit visit, we carried out the following testing early:</p> <ul style="list-style-type: none"><li>• We have tested an initial sample of payroll costs to gain assurance that employees have been remunerated at the correct rates during 2013/14.</li></ul>	<p>Our testing to date has not highlighted any issues which we wish to bring to your attention.</p> <p>We would like to record our thanks to the Council's staff for their help and support in this area of our interim visit.</p>

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# Value for Money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

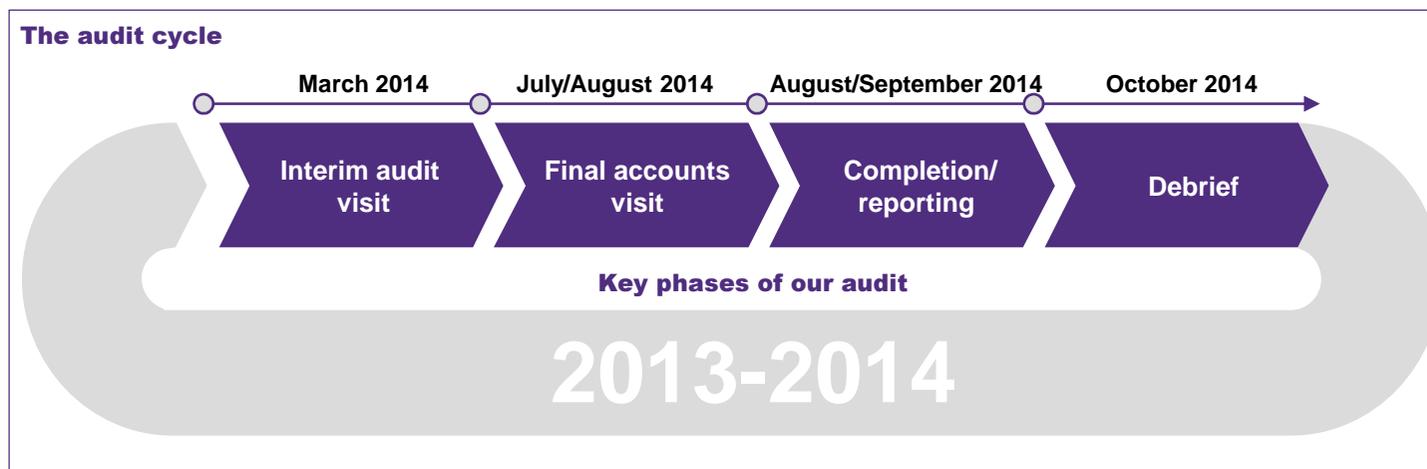
We will undertake a risk assessment to identify areas of risk to our VfM conclusion. We will then:

- update our knowledge of the Council's arrangements from last year; and
- consider the progress the Council has made in delivering its savings plans in 2013/14 and identifying future efficiencies for 2014/15 onwards.

We will continue to update our risk assessment until we issue our conclusion in September 2014.

The results of our VfM conclusion work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Key dates



Date	Activity
February 2014	Planning
March 2014	Interim site visit
25 June 2014	Presentation of Audit Plan to the Accounts and Audit Committee
July/August 2014	Year end fieldwork
August 2014 (Date TBC)	Audit findings clearance meeting
27 August 2014	Report audit findings to those charged with governance (Accounts and Audit Committee)
By 30 September 2014	Sign financial statements opinion and VfM conclusion

# Fees and independence

## Fees

	£
Ribble Valley Borough Council audit	52,702
Grant certification (proposed indicative fee at this stage)	14,080
<b>Total fees (excluding VAT)</b>	<b>66,782</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.

## Fees for other services

Service	Fees £
None	Nil

## 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 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 the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance.	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications.	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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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# Appendices

# Appendix A - Action plan

## Priority

**High** - Significant effect on control system

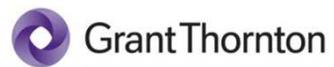
**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>Regular IT Security Policy reviews</b></p> <p>IT Management should ensure that there is a schedule of regular review implemented for IT Security policies and that adequate document control is included within the documents. Policies should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy and effectiveness.</p>	Low	We will now review our policies on an annual basis (or shorter if required), with clear document controls in place to ensure that this can be verified.	Immediate - Head of Financial Services and ICT Manager
2	<p><b>Logical access controls</b></p> <p>Management should consider implementing a stronger password policy for the network and all applications as follows:</p> <ul style="list-style-type: none"> <li>• passwords changed every 42 days</li> <li>• minimum password length 9</li> <li>• password history enforced (password cannot be re-used in one year)</li> <li>• passwords have to be in place for a minimum of one day</li> <li>• complex passwords enforced whenever possible.</li> </ul>	Low	There are unfortunately restrictions on the controls that we can put in place in some areas due to the constraints of the systems themselves. We can confirm that all recommendations have been actioned, within system restrictions.	Immediate - Head of Financial Services, Head of Revenues and Benefits and ICT Manager

## Action plan continued

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	<p><b>User access reviews</b></p> <p>We recommend that a schedule is implemented for regular reviews of user access rights for network and finance systems. Accounts which have not been used for a defined number of days should be automatically disabled, until a reset request comes through from the user.</p>	Low	User access reviews will be carried out on a more regular basis, together with details of any staff post changes being provided to ICT during the year, in order to action any changes as and when required. As a small authority this is an area that we feel confident is already managed, but this will be formalised.	Immediate - Head of Financial Services and ICT Manager
4	<p><b>Change Management</b></p> <p>Management should develop a policy and related procedures for the change management process which will define how the Council will deal with changes to all of the systems and software. The introduction of a more formal change management system – based on forms - is being actively considered by IT, after issues with the change management of Firewalls were made evident during the year. Management should look to ensure that this system is implemented in the year.</p>	Low	A more robust change management procedure will be put into place to ensure all changes are covered by the process. A change management process is already in place, however it is acknowledged that this needs to be improved upon.	September 2014 - Head of Financial Services and ICT Manager
5	<p><b>Backup duration</b></p> <p>IT to confirm with systems owners how often tape backups should be taken off site. Any additional costs associated with increasing the frequency of tape rotation off site needs to be agreed with management.</p>	Low	A more regular timetable of offsite backup tape storage will be put in place. This will be implemented once staffing levels in the section have returned to normal.	September 2014 - Head of Financial Services and ICT Manager



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