

# The Audit Plan for Ribble Valley Borough Council

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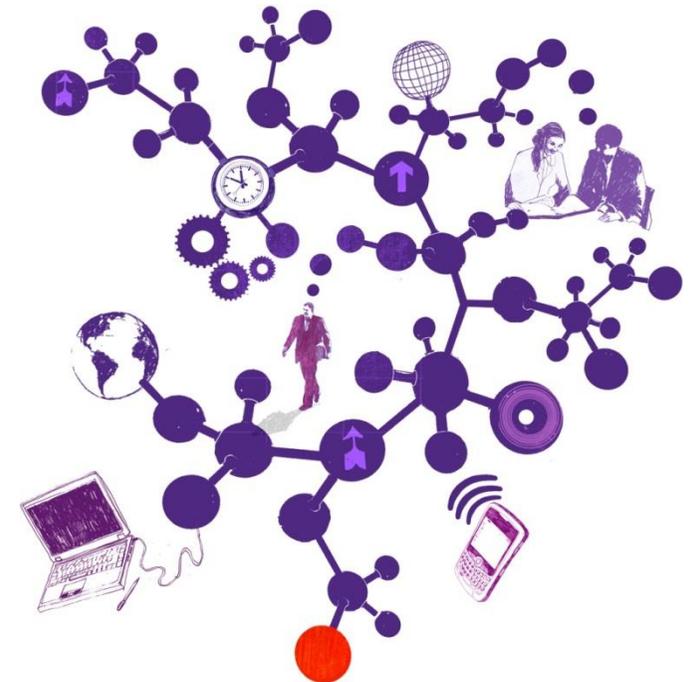
**Year ended 31 March 2015**

March 2015

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Financial resilience

- The latest local government financial settlement has seen a 12.1% year on year reduction in the Council's settlement funding assessment (SFA) for 2014/15 with a further year 13.9% reduction in the provisional SFA for 2015/16
- This reduction in funding continues to make the task of ensuring the delivery of Corporate priorities and affordability of spending plans over the medium term ever more challenging



### 2. Planning appeals

- As the Council continues to incur significant costs in relation to appeals against planning decisions, it is important that the decisions made can be robustly defended to avoid the appeal costs incurred by applicants



### 3. Partnership working

- Councils continue to look at different ways to deliver their services to help meet financial targets while maintaining and improving service standards
- This includes partnership working with other bodies and the voluntary sector



## Our response

- We will review the Council's performance against the 2014/15 budget
- We will assess your Medium Term Financial Strategy as part of our review of your arrangements for securing financial resilience

- We will assess the completeness of related provisions in and review the level of related reserves the financial statements

- We will consider how the Council is working with its partners as part of our review of your arrangements for challenging how economy, efficiency and effectiveness is secured

# Understanding your business

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. Other requirements

- The Council completes grant claims and returns on which audit certification is required

## 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 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.

# Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- \* Understanding the environment and the entity
- \* Understanding the business
- \* Understanding management's focus
- \* Evaluating the year's results

Inherent risks  
Significant risks  
Other risks  
Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material<sup>a</sup> respects with the CIPFA Code of Practice framework using our global methodology and audit software



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.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

# Significant risks

'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 the 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 Ribble Valley Borough Council, mean that all forms of fraud are seen as unacceptable.</li></ul>
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><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Testing of journal entries</li></ul> <p><b>Further 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 remaining journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks

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)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Documentation and assessment of the design effectiveness and implementation of internal controls</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>Review of reconciliation of accounts payable system control accounts</li><li>Search for unrecorded liabilities by comparing cash payments to suppliers in 2015/16 to supplier creditor balances as at 31 March 2015</li></ul>
Employee remuneration	Employee remuneration understated	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>Documentation and assessment of the design effectiveness and implementation of internal controls</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>Review of reconciliation of payroll costs to the general ledger</li><li>Completion of trend analysis to assess whether employee remuneration is in line with expectations</li></ul>

# Value for money

## Value for money

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

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

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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- the robustness of significant assumptions made in the 2015/16 Medium Term Financial Strategy (MTFS)
- the adequacy of arrangements for identifying the significant level of savings expected to be required for 2016/17 -2017/18, as shown in the 2015/16 MTFS.

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 interim audit work

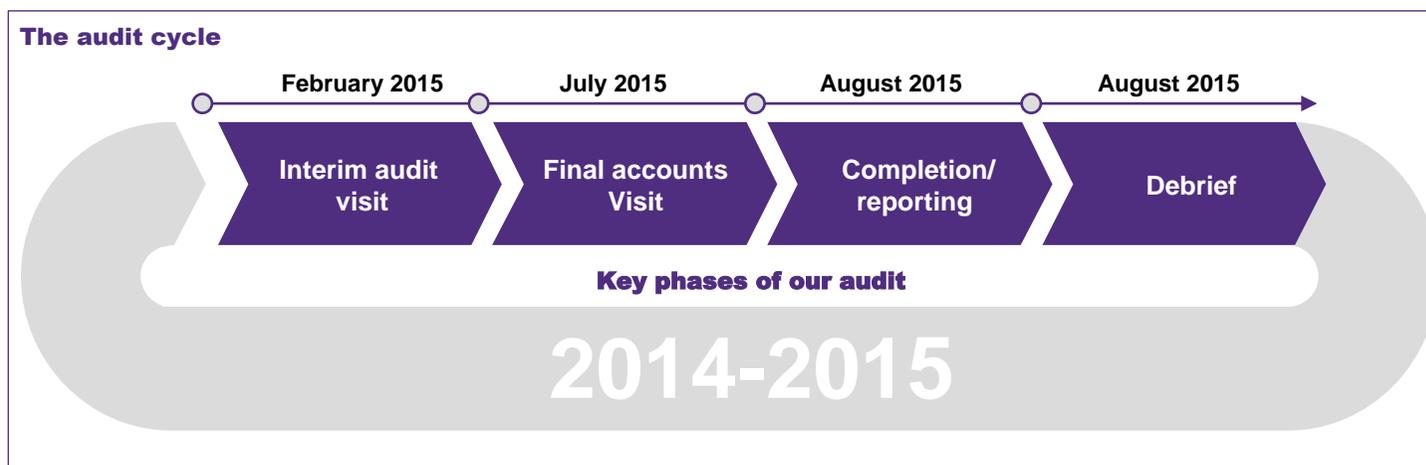
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which we wish to bring to your attention or 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.</p>	<p>Our work has not identified any weaknesses which we wish to bring to your attention or which impact on our audit approach. Internal controls have been implemented in accordance with our documented understanding.</p>
<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>	<p>Our work has not identified any weaknesses which we wish to bring to your attention or which impact on our audit approach.</p>

## Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	<p>Our information systems specialists have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system</p> <p>We have also performed a follow up of the issues that were raised last year</p>	<p>The output of this work will be agreed with management and we will report the findings to this committee in our audit findings report</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first 11 months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>No issues have been identified from the work performed to date which we wish to bring to your attention.</p> <p>We plan to complete our testing for the final month of the financial year on receipt of the draft 2014/15 accounts</p>
<b>Employee remuneration substantive testing</b>	<p>Substantive testing of a sample of payroll transactions for the first 11 months of the financial year, including employer contributions</p>	<p>No issues have been identified from the work performed to date which we wish to bring to your attention</p> <p>We plan to complete our testing for the final month of the financial year prior to receipt of the draft 2014/15 accounts</p>
<b>Operating expenses substantive testing</b>	<p>Substantive testing of a sample of operating expenses for the first 11 months of the financial year, including agreement to source documents</p>	<p>No issues have been identified from the work performed to date which we wish to bring to your attention</p> <p>We plan to complete our testing for the final month of the financial year prior to receipt of the draft 2014/15 accounts</p>

# Key dates



<b>Date</b>	<b>Activity</b>
<b>February 2015</b>	Planning
<b>February 2015 – March 2015</b>	Interim site visit
<b>1 April 2015</b>	Presentation of audit plan to Audit Committee
<b>July 2015 – August 2015</b>	Year end fieldwork
<b>30 July 2015</b>	Audit findings clearance meeting with the Director of Resources
<b>26 August 2015</b>	Report audit findings to those charged with governance (Accounts and Audit Committee)
<b>26 August 2015</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	53,602
Grant certification (indicative fee at this stage)	14,080
<b>Total fees (excluding VAT)</b>	<b>67,682</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

### 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

Service	Fees £
None	Nil

### 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

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- a member of the Council's Accountancy section is a former employee of Grant Thornton UK LLP. We will ensure any work completed by this member of your team is reviewed by staff who did not previously work directly with him.

We confirm that there are no other 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](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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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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