



# The Audit Plan for Plymouth City Council

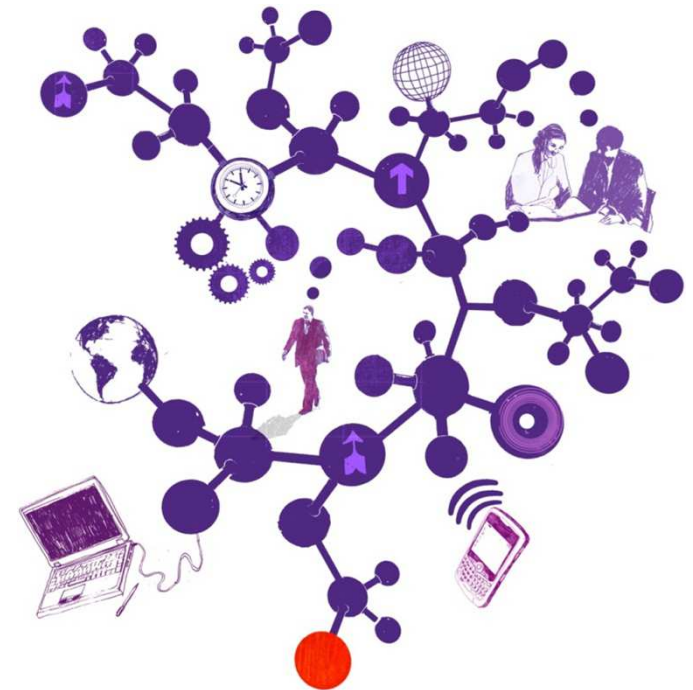
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**Year ended 31 March 2014**

5 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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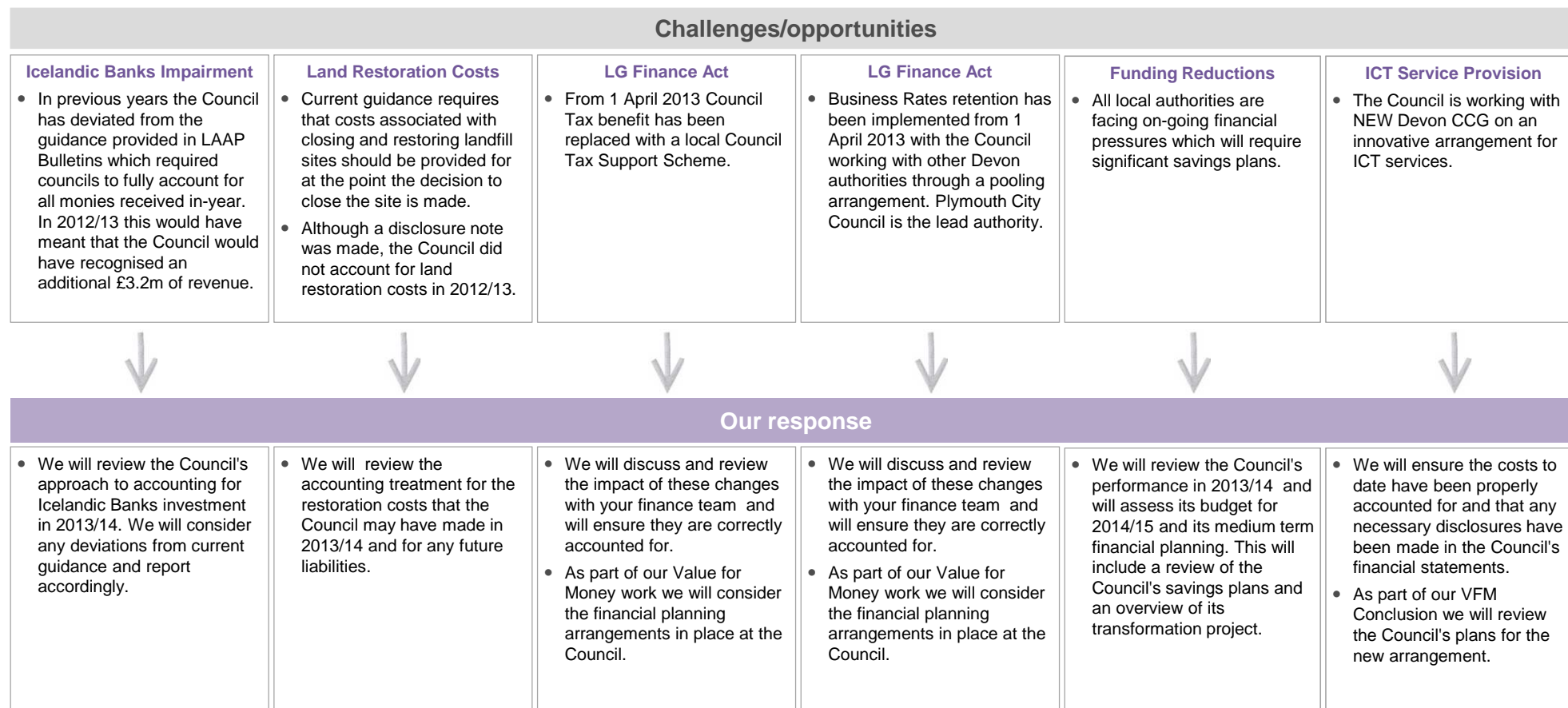
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# Understanding your business

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.



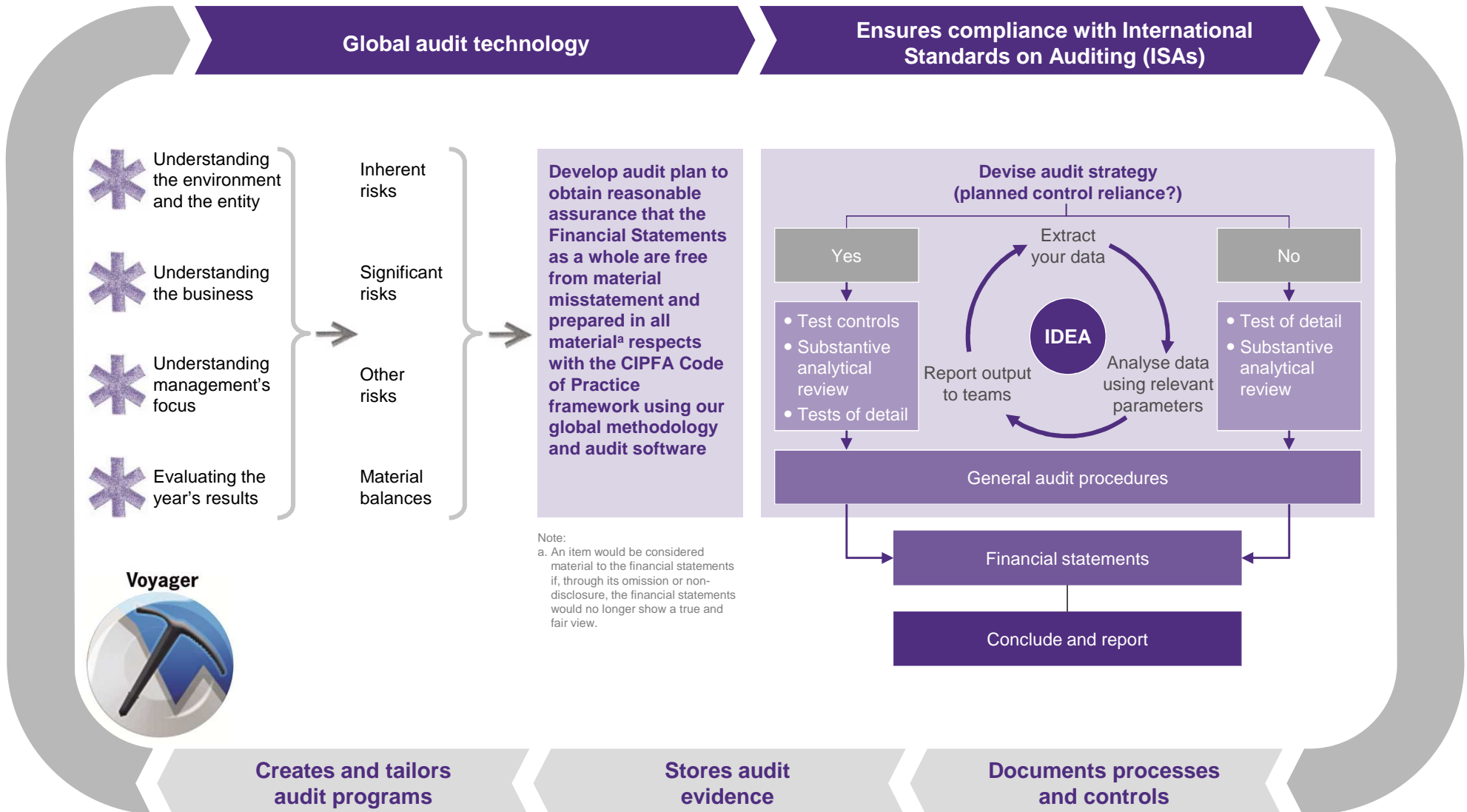
# Developments relevant to your business and the audit

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					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> <li>• Transfer of assets to Academies</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>

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

# 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>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> </ul>
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><b>Work completed to date:</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> <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 journal entries</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 reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Walkthrough testing of operating expenses and creditors completed which confirms processes and controls operating satisfactorily.</li> <li>Substantive testing of material expenditure incurred up to date of interim audit</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of material expenditure streams for the remainder of the 2013-14 financial year</li> <li>Substantive testing of significant creditor balances</li> <li>Review of creditors / liability balances for unusual amounts</li> <li>Review of after date payments to ensure all liabilities identified</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Walkthrough testing of employee remuneration completed which confirms processes and controls operating satisfactorily.</li> <li>Review of control account reconciliations</li> <li>Substantive testing of employee remuneration expenditure incurred up to date of interim audit</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of employee remuneration expenditure for the remainder of the 2013-14 financial year</li> <li>Review of the year end control account reconciliation</li> <li>Review of year-end liabilities</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Walkthrough testing of welfare benefit expenditure completed which confirms processes and controls operating satisfactorily.</li> </ul>	<ul style="list-style-type: none"> <li>Completion of housing benefits subsidy certification</li> </ul>
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> <li>Walkthrough testing of property, plant &amp; equipment completed which confirms processes and controls operating satisfactorily.</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of samples of PPE assets re existence, ownership, additions and depreciation</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Walkthrough testing of property, plant &amp; equipment completed which confirms processes and controls operating satisfactorily.</li> </ul>	<ul style="list-style-type: none"> <li>Review of accounting entries in respect of any revaluations to ensure fully and accurately reflected in the accounts.</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:

- Review of the Council's budget for 2014/15 and its medium term financial planning. This will include the savings necessary to provide financial stability and the extent to which the Council's transformation project is delivering against this aim.
- Review of the Council's proposals for a shared ICT service with NEW Devon CCG.
- Review of the emerging governance and performance management arrangements for the joint waste PFI contract with Devon County Council and Torbay Council.
- Assessment of the introduction of the Better Care Fund.

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

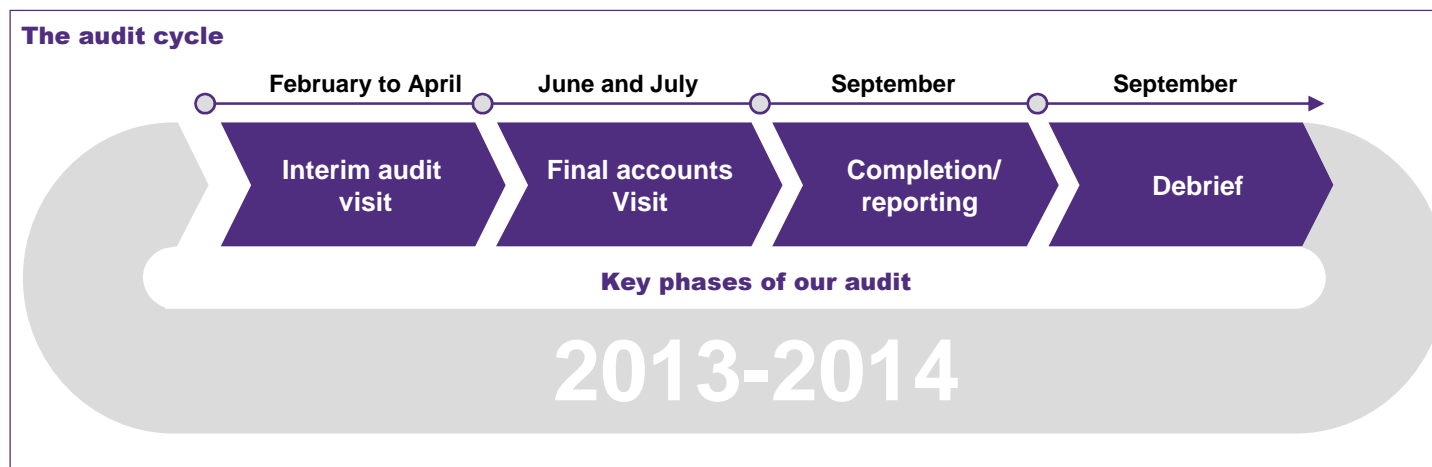
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<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>Overall, we have concluded that the internal audit service continues to provide an independent service to the Council that contributes to an effective internal control environment.</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.</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. We have also performed a follow up of the issues that were raised last year.</p>	<p>We did not identify any issues that will impact on our audit strategy and which we feel we need to draw to your attention at this stage.</p> <p>Some minor issues were identified which we are discussing with officers. We will communicate these to you in our Audit Findings Report.</p>

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<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>A material weakness has again been noted as there is no authorisation process for journals prior to their posting. This was reported to the Council in 2012/13.</p> <p>We have undertaken detailed testing on journal transactions recorded to the date of interim audit, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>A material weakness has been identified as there is no authorisation process for journals prior to posting.</p> <p>Further testing of journals will be undertaken as part of the final accounts audit. This will include examination of the remaining months of the financial year and year end journal processing.</p>
<b>Early substantive testing</b>	<p>As noted earlier, we have completed early substantive testing for employee remuneration and operating expenses covering the period 1 April 2013 to the date of our interim audit.</p>	<p>No issues were identified in the work undertaken.</p> <p>The work carried out to date will reduce the level of detailed testing we will need to carry out as part of our audit of your financial statements.</p>

# Key dates



<b>Date</b>	<b>Activity</b>
<b>On-going</b>	Planning
<b>February to April 2014</b>	Interim site visit
<b>May 2014</b>	Issue draft plan to Officers
<b>June 2014</b>	Presentation of agreed audit plan to Audit Committee
<b>June and July 2014</b>	Year end fieldwork
<b>August 2014</b>	Audit findings clearance meeting with Head of Finance
<b>September 2014</b>	Report audit findings to those charged with governance (Audit Committee)
<b>September 2014</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	181,428
Grant certification (estimated)	23,302
<b>Total fees (excluding VAT)</b>	<b>£204,730</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 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 report
<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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