



# The Audit Plan for Plymouth City Council

**Year ended 31 March 2015**

Audit Committee: 26 March 2015

**John Golding**

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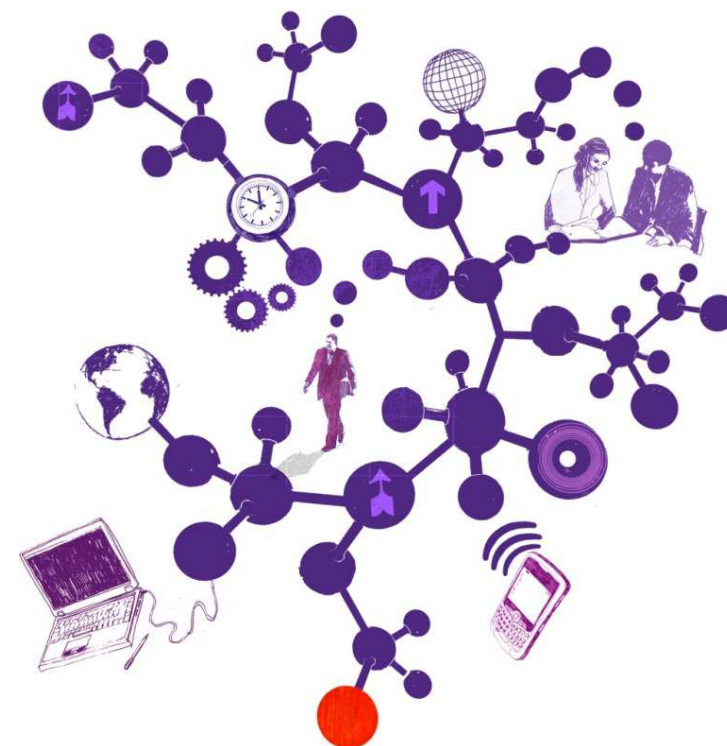
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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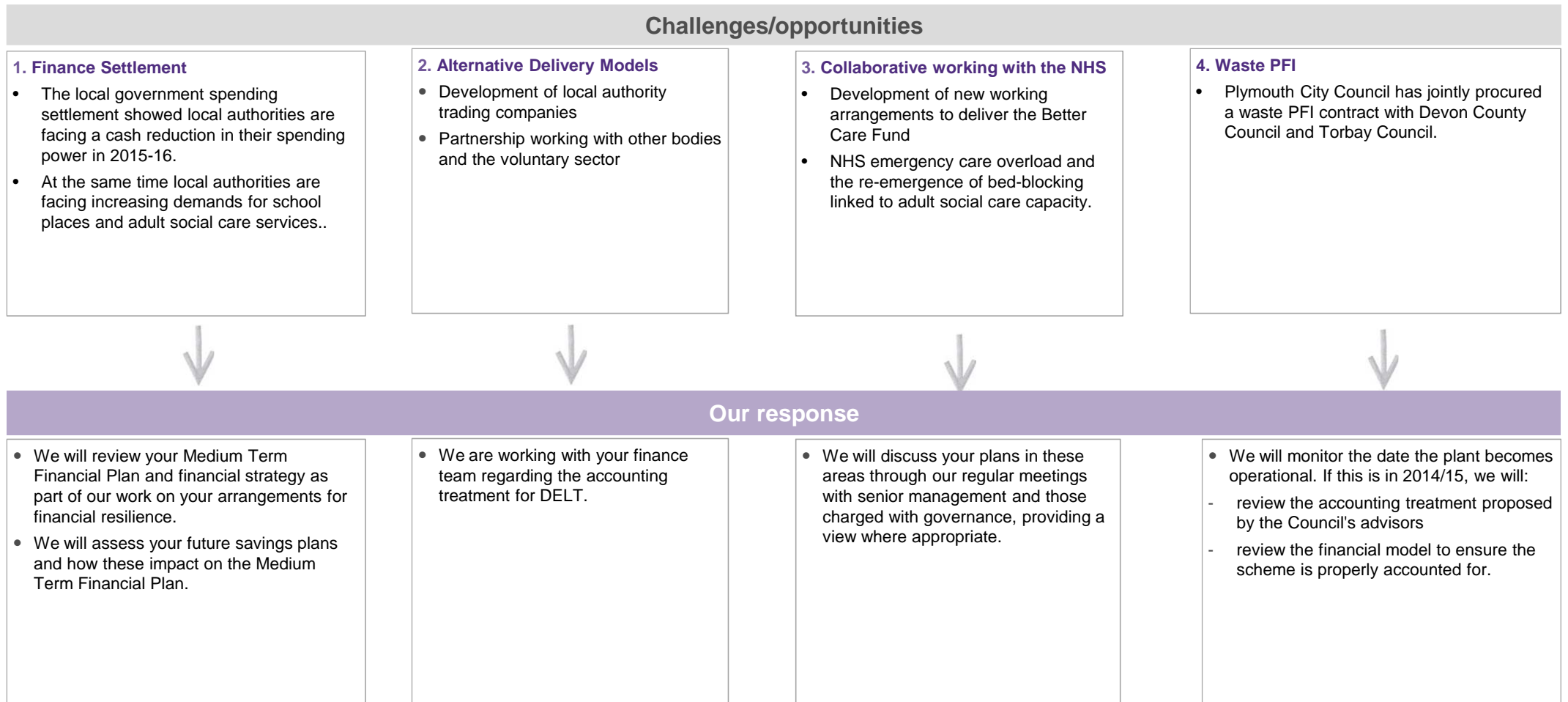
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# Understanding your business

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.

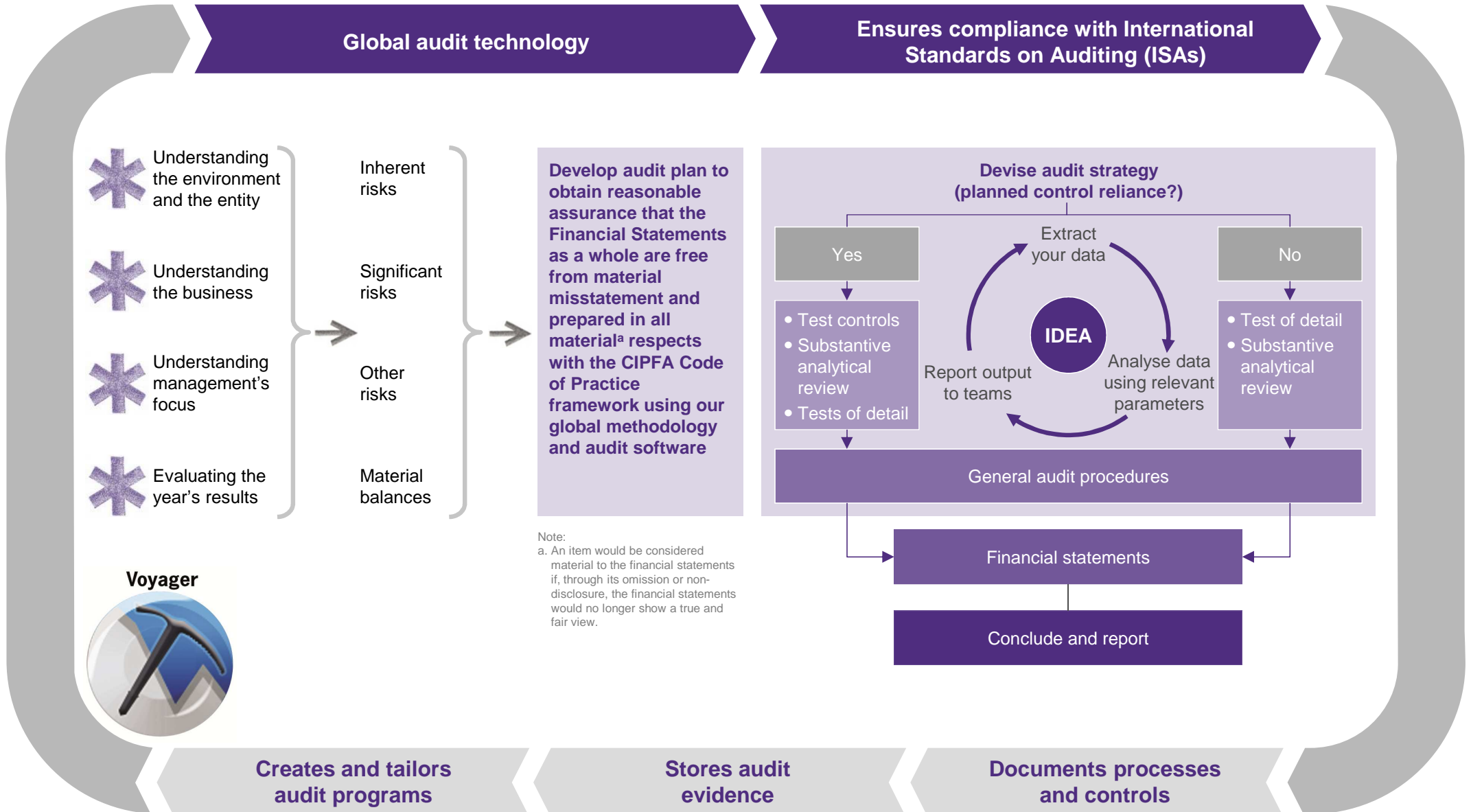
## Developments and other requirements

<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>• Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</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. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>• Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</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>
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## 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 through discussions with management and our substantive testing</li> <li>• schools are accounted for correctly and in line with the latest guidance</li> <li>• the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</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 consider whether the BCF is a risk in the context of our VfM conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2014/15 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 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.</li> </ul>
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# 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	<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 Plymouth City 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 Plymouth City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to period 9 (December 2014):</b></p> <ul style="list-style-type: none"> <li>• Review of initial 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 final 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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work completed to period 9 (December 2014):</b></p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls</li> <li>• Undertaken walkthrough of key controls to assess the design effectiveness</li> <li>• Early substantive testing on operating expenses incurred</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing on operating expenses incurred for the remainder of the year</li> <li>• Search for unrecorded liabilities</li> <li>• Substantive testing on year-end creditors</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work completed to period 9 (December 2014):</b></p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls</li> <li>• Undertaken walkthrough of key controls to assess the design effectiveness</li> <li>• Analytical procedures</li> <li>• Early substantive testing</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing for the remainder of the year</li> <li>• Complete analytical procedures</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	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work completed to period 9 (December 2014):</b></p> <ul style="list-style-type: none"><li>• Documented our understanding of processes and key controls</li><li>• Undertaken walkthrough of the key controls to assess the design effectiveness</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Check system parameters</li><li>• Substantive testing on welfare expenditure</li><li>• Analytical procedures</li></ul>

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# 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	Comments
Delt	To be advised	To be advised	We are working with your finance team to understand the financial implications of Delt on the Council's financial statements for the year ended 31 March 2015 and subsequent years.

# 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 an initial 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 your medium term financial planning
- Assessment of your future savings plans and how these impact on the Council's medium term financial planning
- Review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- On-going consideration whether the Better Care Fund is a risk in the context of our VfM conclusion

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

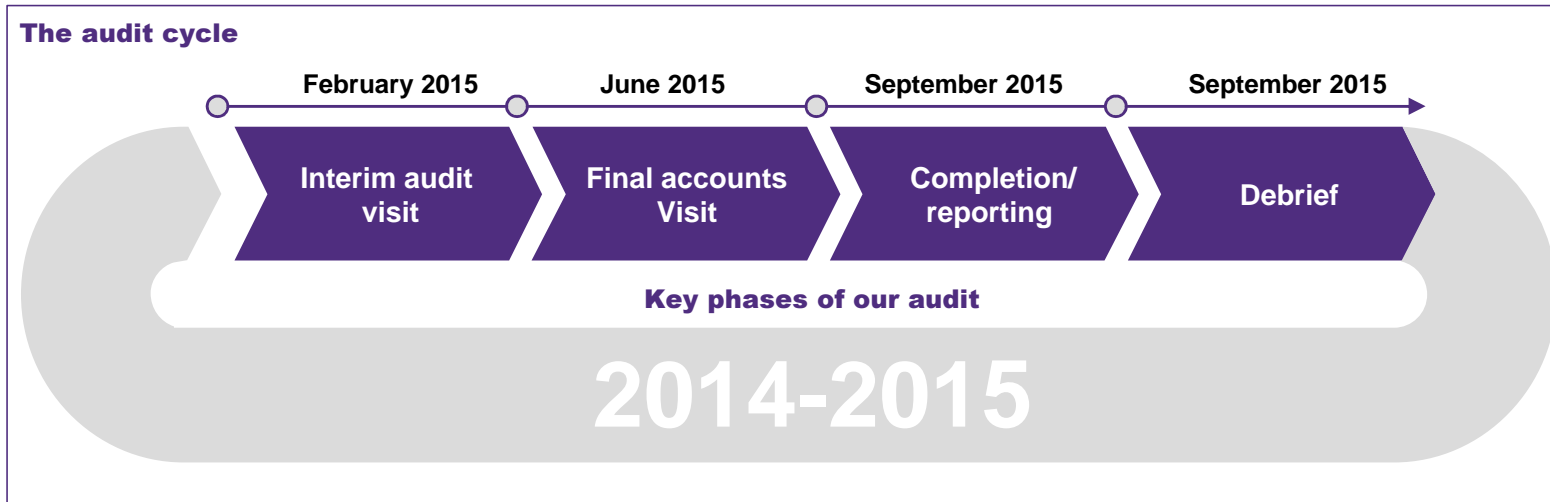
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have not been able to review internal audit's work on the Council's key financial systems as this work has not yet been completed.</p>	<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>
<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>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. However, we did note that the bank reconciliations had not been performed and reviewed in a timely manner.</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 identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

# Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	Our information systems specialist will perform 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.	We will update the Audit Committee on the results of our work.
<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 and 2013/14.</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>We have endeavoured to complete as much testing as possible during our interim audit., we have undertaken early substantive testing in the following areas:</p> <ul style="list-style-type: none"> <li>• Operating expenses</li> <li>• Employee remuneration</li> <li>• Council Tax</li> <li>• Grants Received</li> <li>• Other Revenue</li> </ul>	<p>Our work relating to the Employee Remuneration did not identify any issues.</p> <p>Our work relating to operating expenses identified a control weakness. A payment had been authorised without appropriate supporting documentation.</p> <p>Further investigations are being undertaken in relation to this control issue by Internal Audit.</p>
<b>Value for money</b>	We have completed the initial risk assessment to underpin our VFM conclusion work.	The areas we propose to review are set out on page 11.

# Key dates



<b>Date</b>	<b>Activity</b>
<b>February 2015</b>	Planning
<b>February / March 2015</b>	Interim site visit
<b>March 2015</b>	Presentation of audit plan to Audit Committee
<b>June / July 2015</b>	Year end fieldwork
<b>September 2015</b>	Audit findings clearance meeting with Director of Finance
<b>September 2015</b>	Report audit findings to those charged with governance (Audit Committee)
<b>September 2015</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	182,498
Grant certification	17,720
<b>Total fees (excluding VAT)</b>	<b>200,218</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 £
VAT advice	5,135
Trading Company advice	3,750
2013/14 Teachers Pensions Return	4,200

### Fees for other services

Fees for other services reflect those invoiced 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

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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# Appendices

# 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.	Sample testing of journals should be undertaken by management in order to ensure that they are appropriate for the Council.	Medium	Sample testing of journals will be carried out from 1 May 2015. The Finance Systems Team will set up a new procedure to sample journals every month and get them signed off by a manager.	Nick Flay Lead Accountant May 2015
2.	Bank Reconciliations should be undertaken and reviewed in a timely manner.	Medium	Bank reconciliation have been brought up to date and are be signed off by the manager on a monthly basis.	Hannah West Lead Accountant March 2015
3.	Payments should not be authorised without appropriate supporting documentation.	Medium	Lead Accountants will advise all services managers that anyone who authorises payments must have the supporting documentation. Internal audit has been advised and will carry out further investigations.	Lead Accountants and Internal Audit April 2015



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