



The Audit Plan for South Hams District Council

Year ended 31 March 2014

03 April 2014

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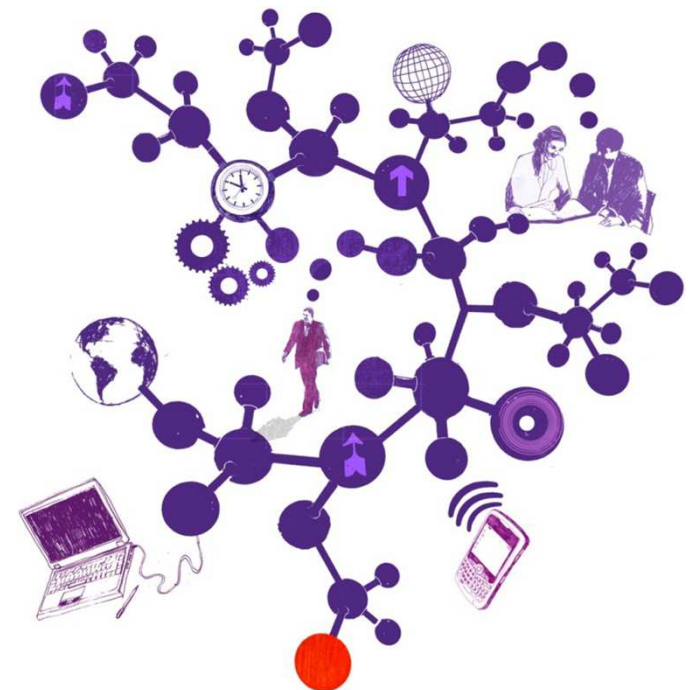
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Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

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. Transformation programme 2018 (T18)

- The Council, together with West Devon Borough Council, is currently undergoing transformation under the T18 project.
- Part of that plan is re-design of the management structure which will reduce the joint management team from ten to seven.
- The resulting reduction in capacity will provide a major challenge for both Council's.

2. Accounting for NDR

- The introduction of local accounting for National Domestic rates (NDR) introduces a new approach to the treatment of business rates.
- The approach introduces the need to provide for appeals.
- The Council also participates in the Devon NDR pool to help reduce the impact of variances in NDR collected across Devon.

3. Achieving savings

- The Council has achieved its financial plans in recent years. However, the Council faces further reductions in the funding it receives in future years.
- The MTFP recognised a £2.35m budget gap over the four financial years 2014/15 to 2017/18.



Our response

- We will :
 - monitor the Council's progress with T18,
 - continue to discuss the changes with management; and
 - review the Council's reporting of achieved savings.

- We will liaise with the Council's finance team to agree:
 - the presentation in the financial statements;
 - the assumptions used to provide for appeals; and
 - the appropriate disclosure of pool arrangements in the financial statements.

- We will review the Council's savings plans as part of our VfM work
- We will review the Council's financial forecasts and estimates as part of our risk planning for the audit of the financial statements
- We will update our assessment of the Council's financial resilience.

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.

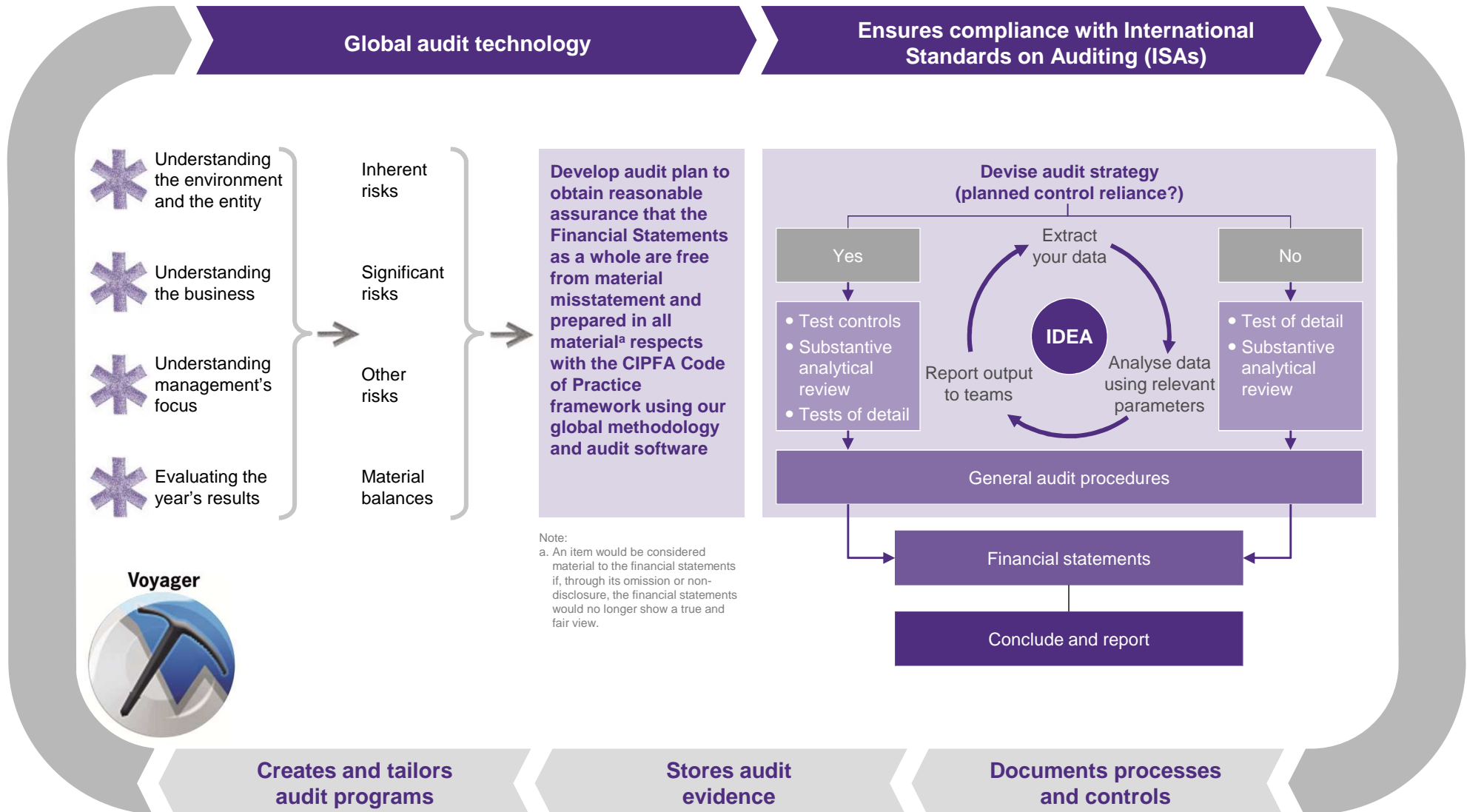
Developments and other requirements

<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 NDR 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
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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. 	<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.
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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	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"> • Review and testing of revenue recognition policies • Testing of material revenue streams <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"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

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"> • Review of system documentation and walkthrough of transaction • Substantively test a sample of operating expenses 	<ul style="list-style-type: none"> • Agree creditors to the ledger • Review unusual amounts • Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction • Substantively test a sample of remuneration transactions 	<ul style="list-style-type: none"> • Predictive analytical review • Reconcile year end HMRC return to ledger • Review unusual amounts • Confirm accounts disclosures
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction • Substantively test a sample of welfare claims • Verifying system parameters 	<ul style="list-style-type: none"> • Analytical Review • Review the reconciliation of the housing benefit system to the general ledger • Agree the Housing Benefit claim to the accounts

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. As in 2012/13 the Financial Resilience of the Council's finances remains the only risk identified.

We will undertake work to ensure that as well as addressing high risk area it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. We do not plan to undertake any other specific reviews to support 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. We will issue a separate report in respect of Financial resilience.

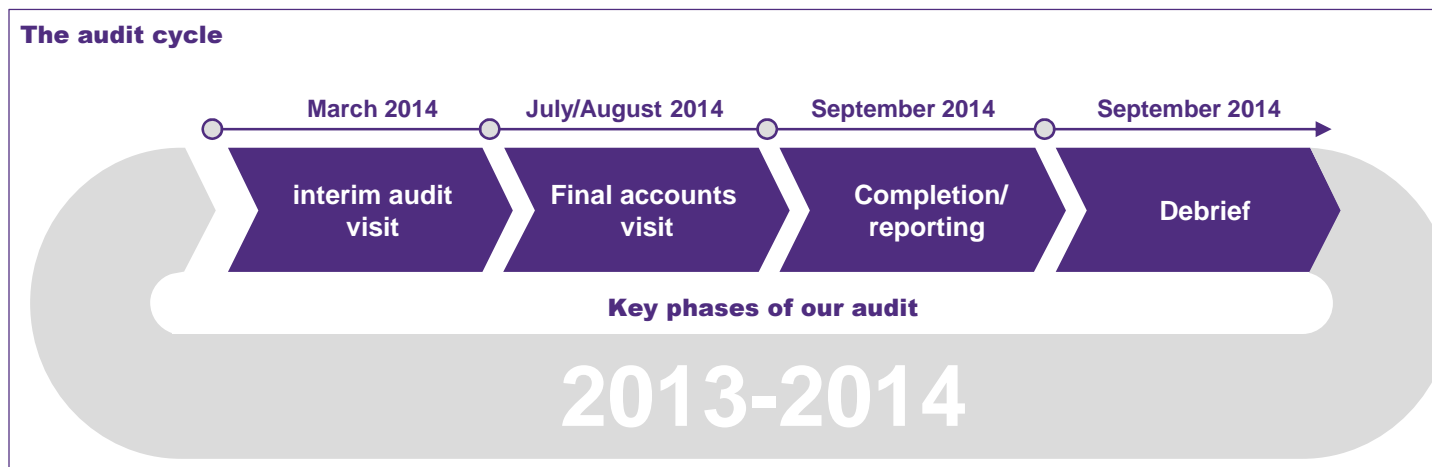
Results of interim audit work

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	We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. We will continue to review the findings of internal audit to inform our audit planning.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These relate to: <ul style="list-style-type: none"> • Operating expenses and creditors • Employee remuneration • Welfare expenditure. 	From our work we noted that: <ul style="list-style-type: none"> • The operating expenses cycle is working as expected • Payroll is currently delivered by one individual, this means there is inadequate segregation of duties. However, we note that there is strong budgetary review of costs that should detect any possible material errors • The welfare benefits cycle is operating as expected.
Review of information technology controls	Our information systems specialist has arranged to perform a review of the general IT control environment in May 2014.	Following completion of this work, we will confirm whether there are any material weaknesses which are likely to adversely impact on the Council's financial statements.

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have identified a material weakness in the authorisation of journals which is likely to adversely impact on the Council's control environment or financial statements.(see conclusion/summary).</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. No issues have been identified that require to be reported.</p>	<p>Although journals over £25,000 are subject to review by the Chief Accountant on a monthly basis we recommend that journal entry controls are enhanced such that there is review and authorisation of all journal postings.</p> <p>No significant issues were noted from the testing of journal entries to date. Further work will be undertaken to test journal entries for the remainder of the 2013/14 financial year.</p>

Key dates



Date	Activity
January 2014	Planning
03 March 2014	Interim site visit
03 April 2014	Presentation of audit plan to Audit Committee
July/August 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Head of Finance & Audit
18 September 2014	Report audit findings to those charged with governance (Audit Committee)
18 September 2014	Sign financial statements opinion

Fees and independence

Fees

Service	Fees £
Council audit	56,972
Grant certification	10,302
Total fees (excluding VAT)	67,274

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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
- The Grant certification fee is subject to revision by the Audit Commission to take account of reduced testing required for the audit of NDR and Council Tax Benefit.

Fees for other services

Service	Fees £
VAT and Employment Tax advice	8,000
Review of client response to HMRC	2,500
Total fees (excluding VAT)	10,500

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		✓

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	All non-routine journal entries should be authorised.	M	Disagree. The Head of Finance considers that there is an adequate audit trail in place, that real controls were in place for year end and that the journals did not involve payments to third parties.	n/a
2	There is a lack of segregation of duties in the preparing and processing of payroll.	M	There are compensating controls within the Council that would identify any errors in the processing of payroll	n/a



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