

The Audit Plan for South Hams District Council

Year ended 31 March 2015

12 March 2015

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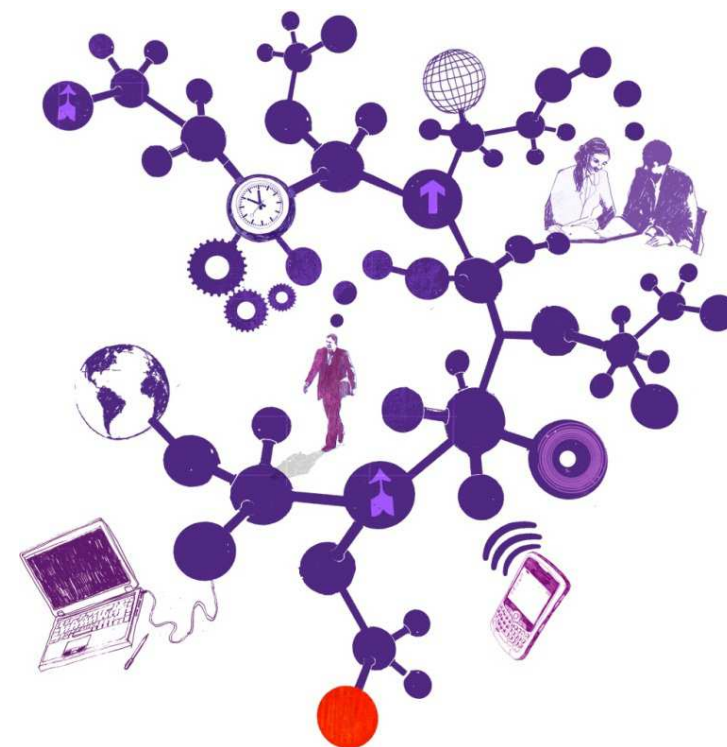
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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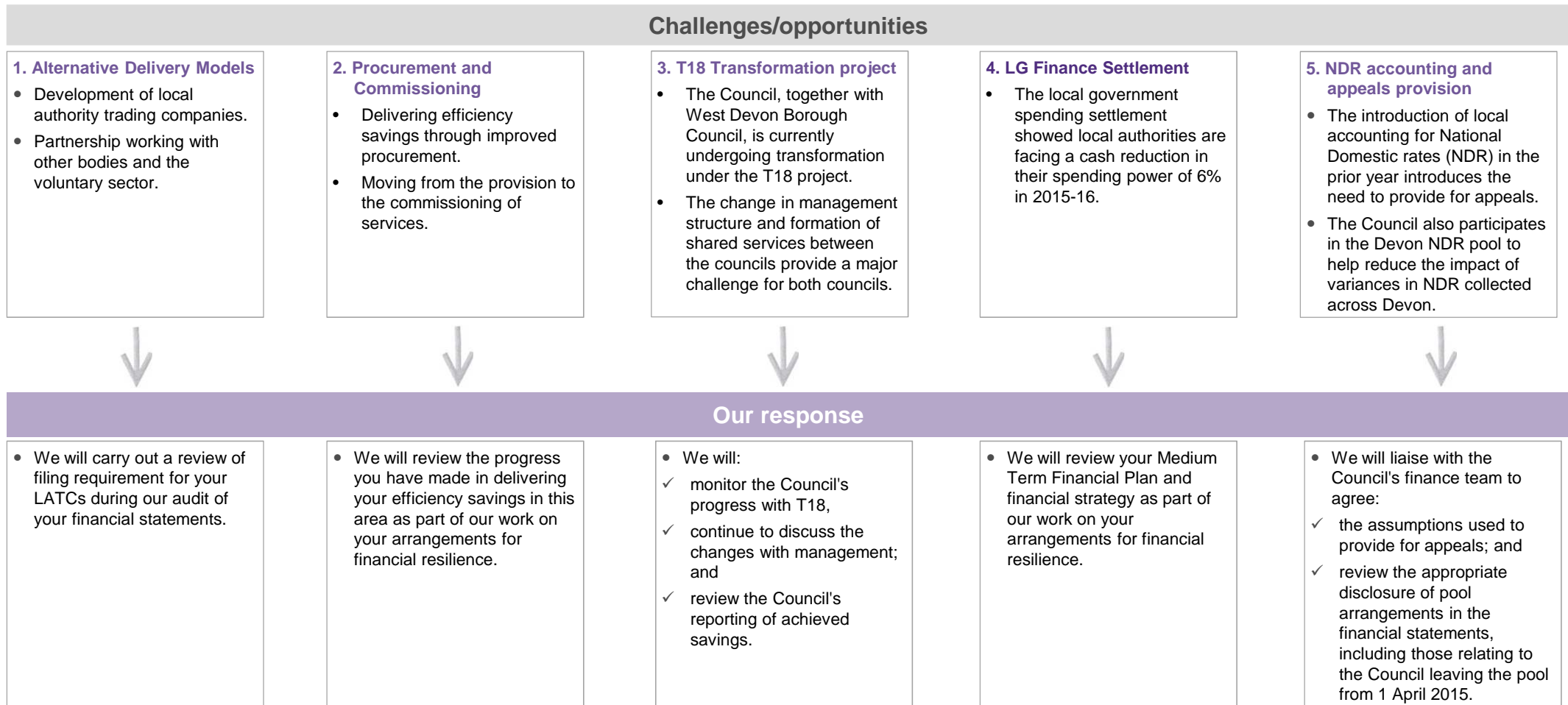
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Understanding your business

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.

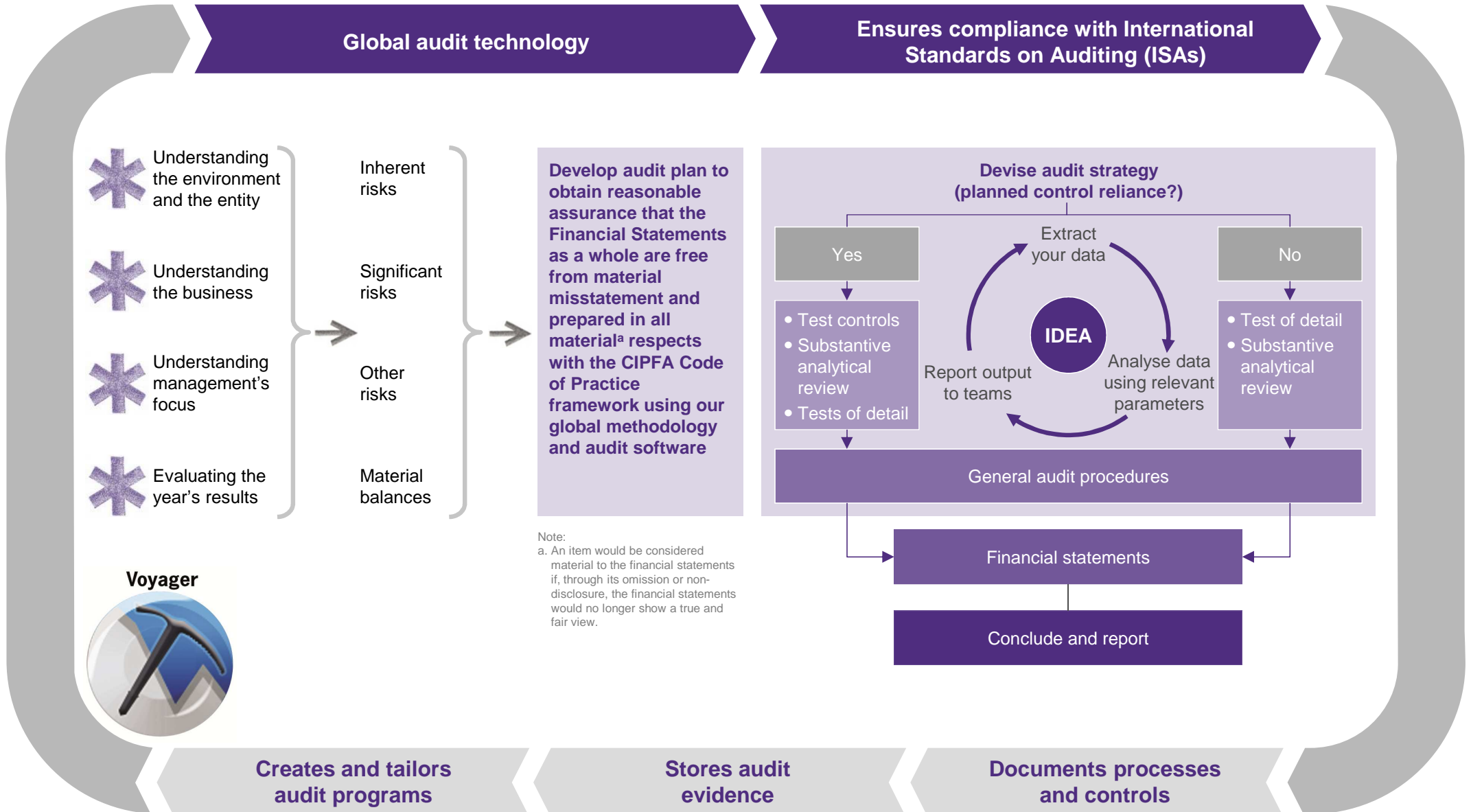
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice. 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS). • Explanatory foreword. 	<p>4. Better Care Fund</p> <ul style="list-style-type: none"> • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015. 	<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

<ul style="list-style-type: none"> • We will ensure that the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing. 	<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 consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required. 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2014/15 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 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.
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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 South Hams District Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • there are appropriate controls in place to mitigate the risk of revenue recognition; • the nature of all material categories of income means that improper recognition would be difficult to conceal; and • the culture and ethical frameworks of local authorities, including South Hams District Council, mean that all forms of fraud are seen as unacceptable.
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>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 journal 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 journal transactions.

Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
Provisions	Redundancy provision at 31 March 2015 understated.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Discussion with Finance Community of Practice Lead, and Chief Accountant with regards to progression of T18 transformation programme and disclosures within the accounts. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of a transaction. • Review allocation of costs between South Hams District Council and West Devon Borough Council. • Re-performance of redundancy provision at 31 March 2015. • Comparison of provisioned redundancies to actual redundancies made post year end. • Review of accounting policies and disclosures in draft accounts.

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	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction. • Substantively test a sample of operating expenses. <p>Further work planned:</p> <ul style="list-style-type: none"> • Agree creditors to the ledger. • Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised. • Substantively test a sample of operating expenses. • Discuss year end accruals process with accounting team.
Employee remuneration	Employee remuneration accruals understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transaction. • Substantively test a sample of remuneration transactions. <p>Further work planned:</p> <ul style="list-style-type: none"> • Predictive analytical review. • Substantively test a sample of remuneration transactions. • Review the apportionment of costs between South Hams District Council and West Devon Borough Council.

Other risks identified cont'd

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transactions. • Completed uprating checklist. • Review of prior year 40+ testing issues. <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantively test a sample of welfare claims. • Verifying system parameters. • 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.

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 VfM and agree any additional reporting to the Council on a review-by-review basis.

Results of interim audit work

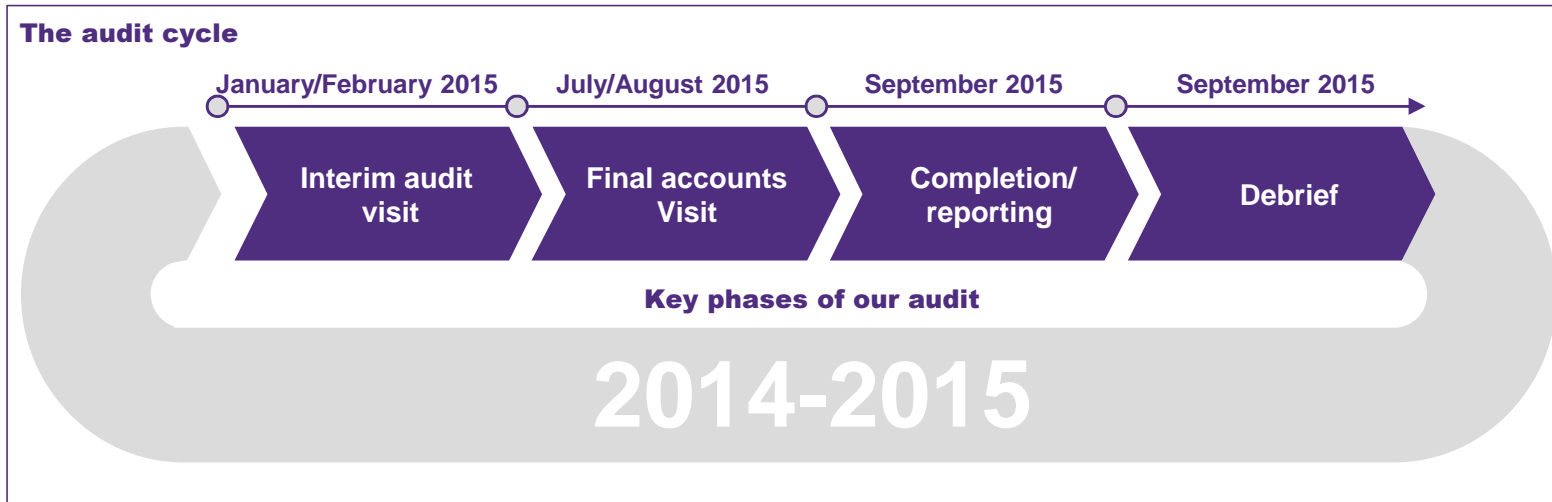
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<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 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 and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p> <p>We will continue to review Internal audit's reports up to the signing of the financial statements.</p>
Walkthrough testing	<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 control issues in relation to employee remunerations which we wish to bring to your attention.</p>	<p>Please see action plan included within the Appendices for details of issues identified through the walkthrough testing.</p> <p>We will complete a walkthrough of a transaction for the redundancy provision during the final accounts work.</p>
Entity level controls	<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"> • Communication and enforcement of integrity and ethical values. • Commitment to competence. • Participation by those charged with governance. • Management's philosophy and operating style. • Organisational structure. • Assignment of authority and responsibility. • Human resource policies and practices. 	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements that have not been identified through the walkthrough testing.</p>

Results of interim audit work cont'd

	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 not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our interim audit work has not identified any material issues, but we have made a suggestion regarding best practice within the Action Plan, included within the Appendices.</p> <p>We will review the final quarters journals and perform a review to ensure our journal listing is complete as part of the final accounts audit.</p>
Early substantive testing	<p>We have completed substantive audit testing on employee remuneration, and operating expenditure for the first nine months of the year by extracting a sample from the relevant nominal codes. No issues have been identified that we wish to highlight for your attention.</p> <p>Further we have reviewed issues identified within the 2013/2014 grant claim relating to backdated claims and have completed the Module 2 uprating checklist.</p>	<p>Our interim work has not identified any material issues.</p> <p>We will perform further substantive testing on the final quarter of the year to 31 March 2015 as part of the final accounts audit.</p>

Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
12 March 2015	Presentation of audit plan to Audit Committee
July/August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Finance Community of Practice Lead
September 2015	Report audit findings to those charged with governance (Audit Committee)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	57,872
Grant certification	9,770
Total fees (excluding VAT)	67,642

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

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	Payroll authority list We recommend the council prepare a list of signatories, with authorisation limits, detailing those who have the authority to sign off overtime and expenses. Signatures on signed forms can then be checked against this list to ensure appropriate authority has been given for the expenditure.	Medium	Agreed. This is timely considering the changes in personnel and will be actioned immediately.	Immediately.
2	Journal authorisation We recommend all journals are authorised electronically before they are posted to the system.	Low	Journal authorisation – As agreed in previous years, all journals will not be authorised due to the staff resource that would be needed for this, however a compensating control is in place that all journals over £25,000 will be periodically reviewed by the Finance Business Partner.	The compensating control is already in place.



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