



The Audit Plan for Tamworth Borough Council

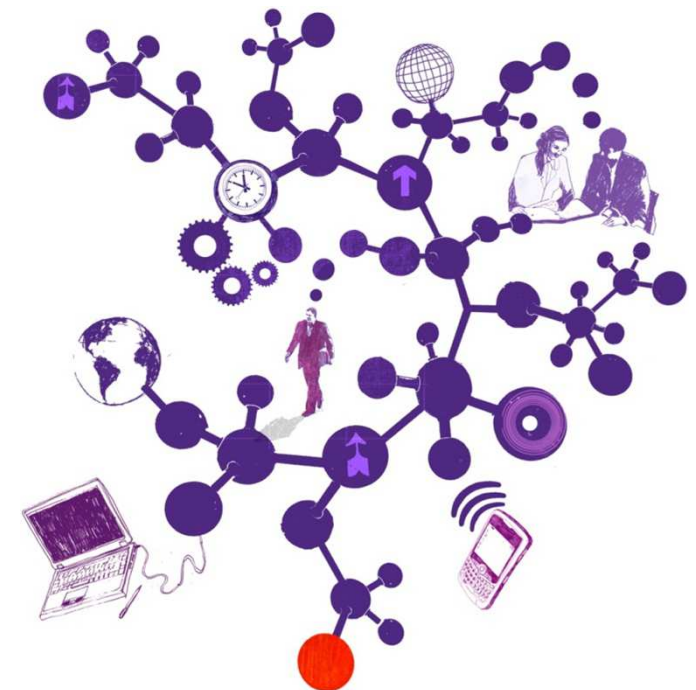
Year ended 31 March 2014

27 March 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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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

<p>1. Medium Term Financial Strategy</p> <ul style="list-style-type: none"> The 3 year MTFS to 2016/17 results in a balanced budget. Projections to 2018/19 indicate a shortfall of £3.8m (including the minimum £0.5m balances) To address the shortfall, the Council has an overarching strategy 'Planning for a Sustainable Future' more detail is provided in the next column. 	<p>2. 'Planning for a Sustainable Future'</p> <ul style="list-style-type: none"> The Cabinet meeting on 22 August 2013 endorsed this strategy and gave authority to proceed with the work streams necessary to identify measures to help deliver a sustainable MTFS. The strategy involves exploring new, innovative ways of working and to be more commercial in its approach to business. 	<p>3. Financial Statements</p> <ul style="list-style-type: none"> There is continuing drive for local authorities to make their accounts easier to understand and to reduce unnecessary disclosures. 	<p>4. Icelandic Banks</p> <ul style="list-style-type: none"> As at 31 December 2013, the Council is owed £1.3m from Icelandic banks. It is anticipating recovery of 100% of the deposit in Gltinir; 94% of the deposits in Heritable and Kaupthing; and 85% of the deposits in Singer & Friedlander. 	<p>5. Business Rate Retention</p> <ul style="list-style-type: none"> The Council shares the NNDR collection fund with Staffordshire CC; the Fire Authority; and the Government The Council has opted to pool any levy with the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) The issue of risk transfer from Central Government to Local Authorities regarding their share and also the impact of future appeal levels is still subject to a significant amount of uncertainty and lack of guidance at present. 	<p>6. Council Tax Benefit</p> <ul style="list-style-type: none"> Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes. There will also be a 10% reduction in council tax funding support.
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Our response

<ul style="list-style-type: none"> We will review the progress of the strategy in identifying measures to ensure the Council maintains its General Fund reserves at its minimum approved level of £0.5m and achieves a balanced budget over the period. 	<ul style="list-style-type: none"> We will review the implementation of the strategy and the impact it has on helping to deliver a MTFS that will not result in overdrawn General Fund reserves. 	<ul style="list-style-type: none"> We continue to work with your officers to identify if there are other areas in your accounts where disclosures could be more streamlined with a focus on the explanatory foreword to check against best practice examples. 	<ul style="list-style-type: none"> We will review the accounting treatment for the remaining balances to ensure it reflects the latest CIPFA updates. 	<ul style="list-style-type: none"> We will discuss the impact of the changes with the Council through our regular meetings with senior management and those charged with governance, providing advice/support where appropriate. 	<ul style="list-style-type: none"> We will discuss the impact of the changes with the Council through our regular meetings with senior management and those charged with governance, providing advice/support where appropriate.
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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.

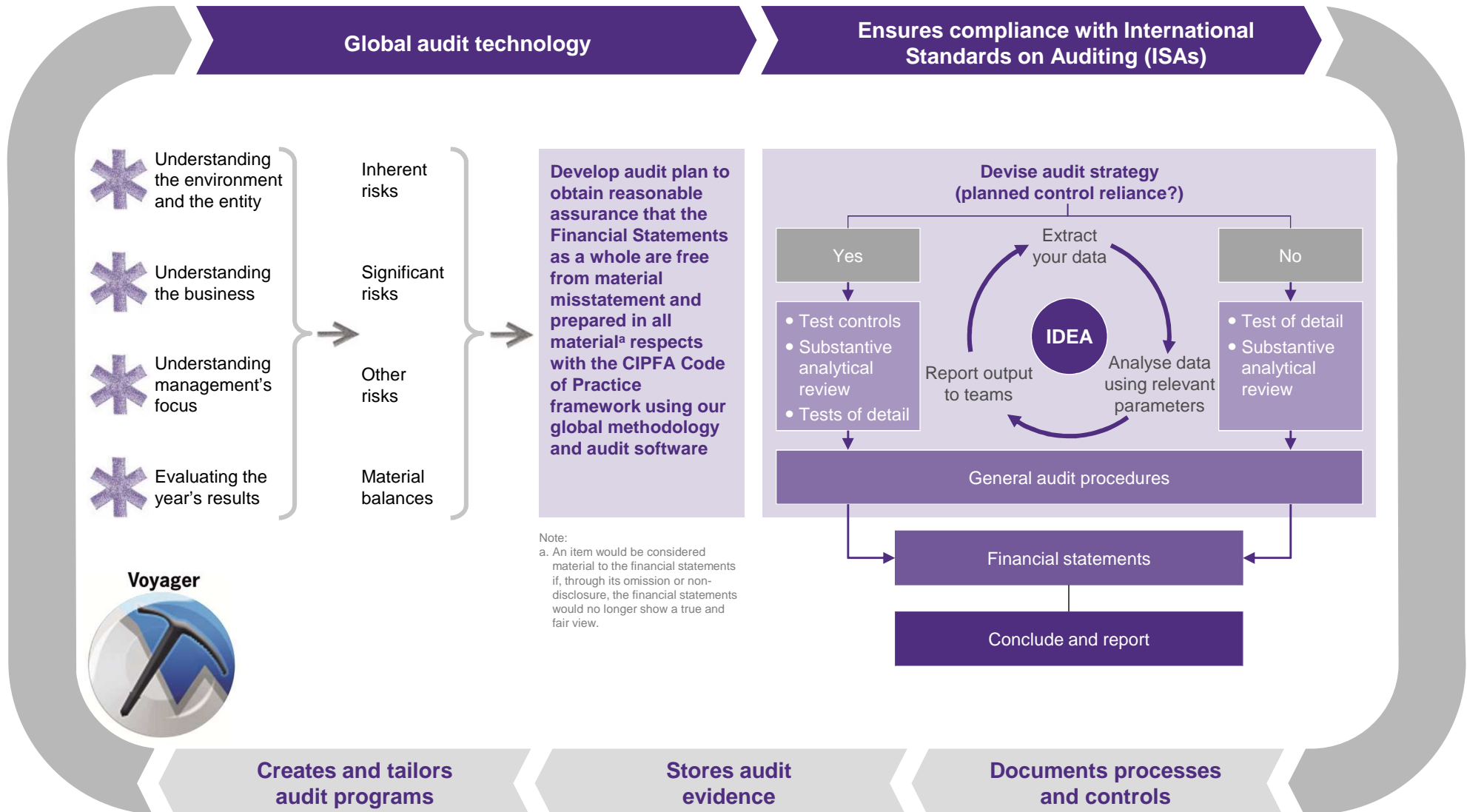
Developments and other requirements

<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 	<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"> • Changes to the Local Government pension Scheme (LGPS) disclosures in 2013/14 arising from amendments made to International Accounting Standard (IAS)19 Employee Benefits. 	<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 	<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 • We will review the disclosures in the accounts to ensure they reflect the changes to IAS 19. 	<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. The risk is that income may be over or under stated in the accounts.	Work planned: <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.	Work planned: <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 (the risk is that operating expenses are not completely included in the accounts and are thus over or under stated)	<ul style="list-style-type: none"> We have documented the purchase ledger system 	<ul style="list-style-type: none"> We will perform a walkthrough of identified controls to confirm our understanding of the system We will carry out substantive testing on a sample of purchase ledger transactions and ensure the purchase ledger agrees to the general ledger. Cut off testing will performed on pre and post year end transactions.
Employee remuneration	Employee remuneration accrual understated (the risk is that employee remuneration is not fully and correctly included in the accounts and is thus over or under stated)	<ul style="list-style-type: none"> We have documented the payroll system 	<ul style="list-style-type: none"> We will perform a walkthrough of identified controls to confirm our understanding of the system We will carry out substantive testing on a sample of employee payments; review the operation of monthly reconciliations; and ensure the payroll agrees to the general ledger.
Welfare Expenditure	Welfare benefit expenditure improperly computed (the risk is that welfare benefit has not been properly calculated)	<ul style="list-style-type: none"> We have documented the benefits system 	<ul style="list-style-type: none"> We will perform a walkthrough of identified controls to confirm our understanding of the system We will place reliance on the detailed testing required for us to certify the BEN01 claim; and ensure the HB system agrees to the general ledger.
Housing Rent Revenue Account	Revenue transactions not recorded (the risk is that not all rental income has been recorded)	<ul style="list-style-type: none"> We have documented the housing rents system 	<ul style="list-style-type: none"> We will perform a walkthrough of identified controls to confirm our understanding of the system We will perform a predictive analytical review of rental income to check whether the income is in line with our expectations.

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. The work we will undertake to reach the VfM conclusion is:

- A review of the arrangements relating to financial governance, strategic financial planning and financial control including the development of the strategy to ensure a balanced budget continues to be delivered
- A review of financial resilience.

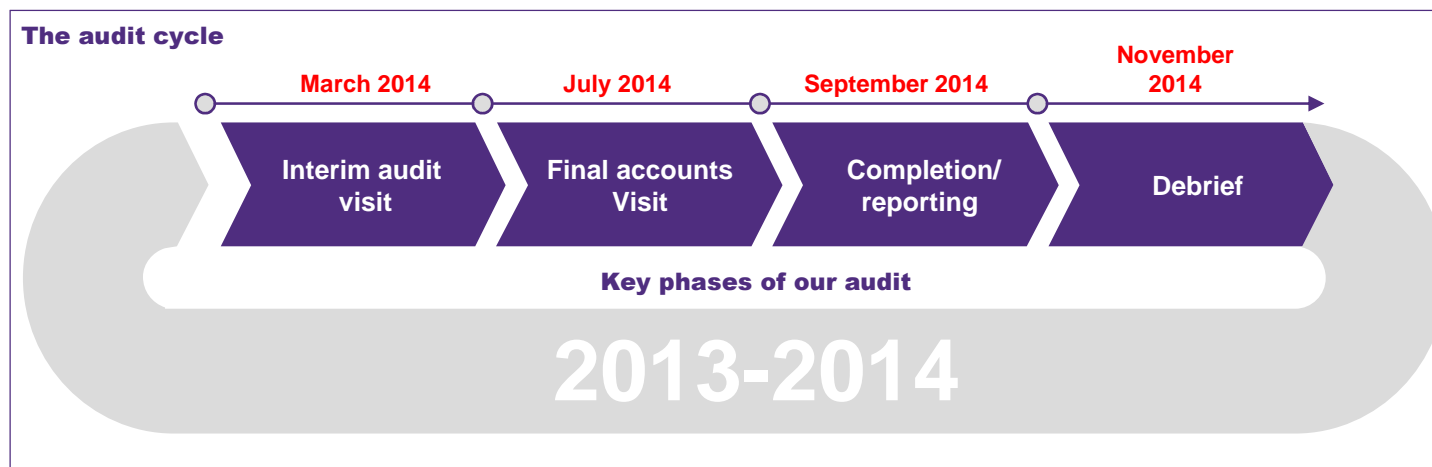
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council as and when required.

Results of interim audit work

The findings of our review of internal audit, and the impact of our findings on the accounts audit approach, are summarised in the table below:
Our interim audit work to be performed week beginning 10 March 2014 is also reported in the table.

	Work performed/to be performed and findings	Conclusion/To be reported
Internal audit (review is complete)	<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 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>
Walkthrough testing (to be performed week beginning 10 March 2014)	<p>We will complete 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 will identify whether there are any issues which we wish to bring to your attention. The work will conclude whether internal controls have been implemented in accordance with our documented understanding.</p> <p>We will formally report the conclusion of this work at the meeting to be held in June 2014.</p>
Review of information technology controls (to be performed week beginning 10 March 2014)	<p>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.</p>	<p>Our work will identify whether IT (information technology) controls have been implemented in accordance with our documented understanding.</p>
Journal entry controls testing (to be performed week beginning 10 March 2014)	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>Our work will identify whether there are any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will formally report the conclusion of this work at the meeting to be held in June 2014.</p>

Key dates



Date	Activity
January 2014	Planning
March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit and Governance Committee
July 2014	Year end fieldwork
12 September 2014	Audit findings clearance meeting with Executive Director (Corporate Services) including management's receipt of our draft Audit Findings Report
25 September 2014	Report audit findings to those charged with governance Audit and Governance Committee
By 30 September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	65,550
Grant certification	16,400
Total fees (excluding VAT)	81,950

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).

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		✓



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