

**Audit Committee – 15<sup>th</sup> April 2015**

**Report of the Chief Officer, Finance and Legal**

**Grant Thornton Audit Plan 2014/15**

**Purpose of Report**

1. The External Auditor's Audit Plan for 2014/15 is attached and the Audit Manager will be available at the meeting to deal with any issues.

**Background**

2. The Audit Plan 2014/15 is attached as Appendix 1. This document is produced by the Grant Thornton. It sets out the work they will carry out in discharging their responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

The key considerations set out within this report are:

- This plan sets out Grant Thornton's responsibilities under the Code of Audit Practice.
- The plan includes an assessment of current local risks relevant to the audit and the proposed response to these.

**Finance**

3. The attached report explains the methodology applied in testing and forming the audit opinion and risk determination. There are no resource implications as a consequence of the report.

**Law**

4. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

**Equality Impact**

5. The proposals take into account the Council's Policy on Equality and Diversity.

## **Recommendation**

6. That Members note and comment as appropriate, on Grant Thornton's Audit Plan 2014/15



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**Iain Newman**  
**Chief Officer, Finance and Legal**

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## **List of Background Papers**

Appendix 1 Grant Thornton The Audit Plan for Dudley Metropolitan Borough Council

# The Audit Plan for Dudley Metropolitan Borough Council

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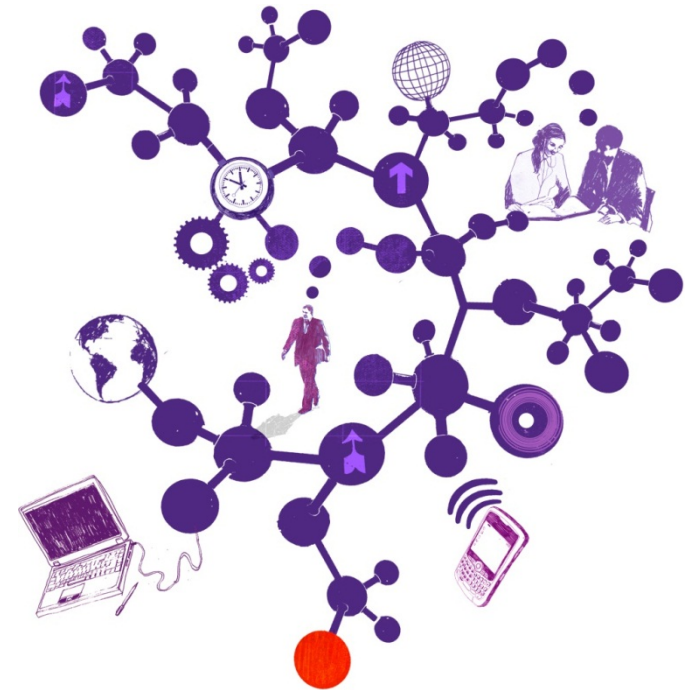
**Year ended 31 March 2015**

March 2015

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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.

# 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. Looked after Children

- The Council is committed to improving the lives of vulnerable children. However this service continues to have challenging financial pressures.

### 2. Restructure

- The Council is going through a significant restructure. This includes a reduction in the number directorates, changes to senior officers and a new Chief Executive
- Whilst this is an opportunity for new ideas is also creates a period of uncertainty.

### 3. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015/16.
- At the same time local authorities nationally are facing increasing operational demands such as those for within looked after children.

### 4. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund.
- NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.

### 5. Shortfall in the medium term financial strategy

- The MTFS presented at the February Cabinet meeting showed that despite substantial savings plan there was a reliance on reserves and a potential financial shortfall in 2016/17.
- Budget Challenge Teams have been set up to identify further savings that can be brought forward to address this gap. They are due to report in July and October 2015.



## Our response

- We will consider the impact of the financial pressures and service delivery as part of our value for money conclusion.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.
- We will also consider the need for provisions in the financial statements to relate to the restructuring costs.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review your 2015/16 budget setting and Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will consider the position and the steps the Council is taking to address this as part of the financial resilience element of our value for money assessment and conclusion.

# 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.

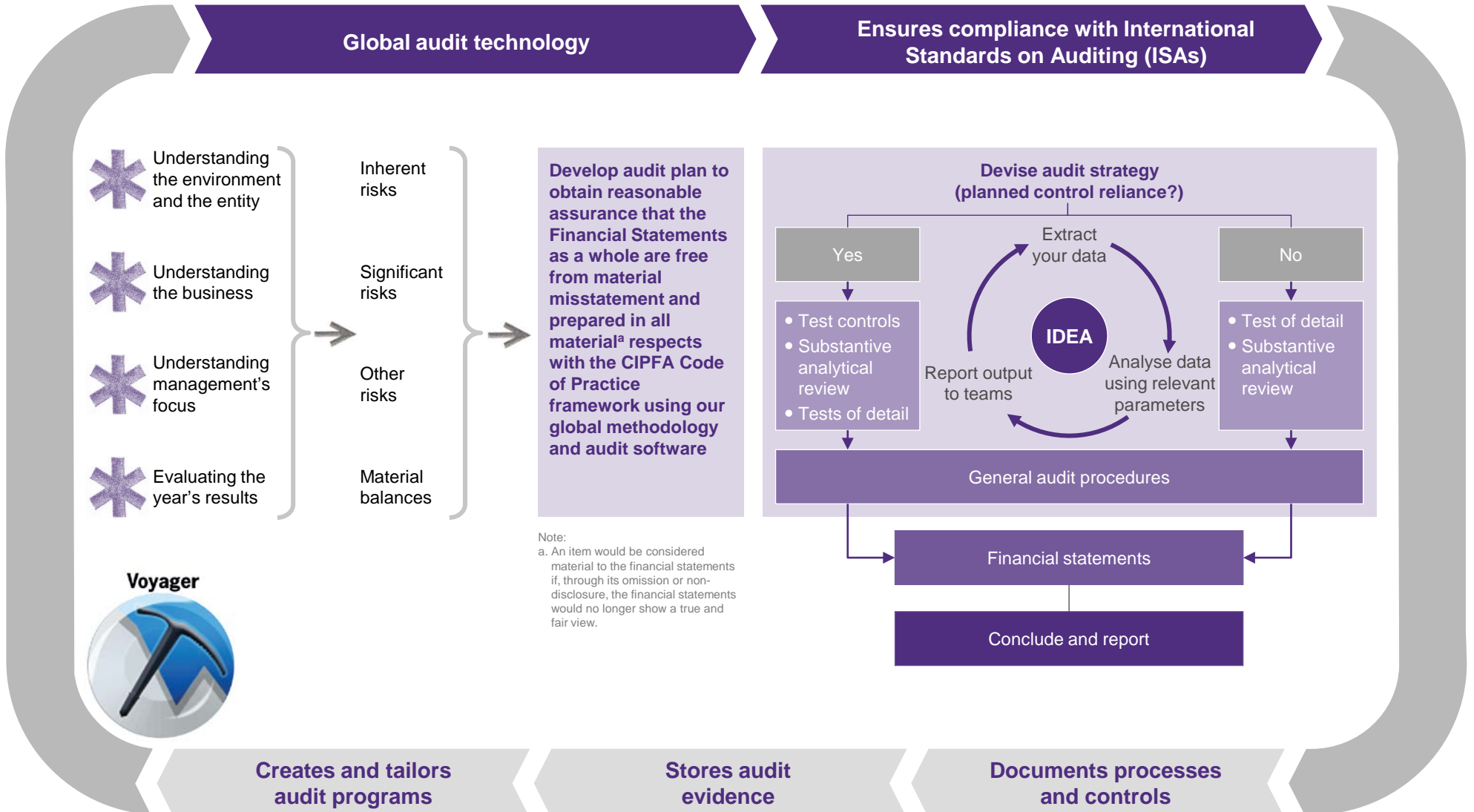
## Developments and other requirements

<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. Central Government</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Care Act 2014</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. VFM conclusion</b></p> <ul style="list-style-type: none"> <li>• We are required to satisfy ourselves that you have achieved economy, effectiveness and efficiency in your use of resources</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> <li>• Pace of change required to deliver savings required to balance budgets over future years</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

<ul style="list-style-type: none"> <li>• We will ensure that 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 central government 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 the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources</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> <li>• We will consider financial performance and service delivery particularly in areas where service redesign or the use of alternative delivery models has been implemented</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 the 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 Dudley Metropolitan Borough 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 date:</b></p> <ul style="list-style-type: none"> <li>• Discussion on accounting estimates, judgments and decisions made by management</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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documented the processes and controls in place around accounting for operating expenses</li> <li>• Walkthrough tests to confirm the operation of the controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Search for unrecorded liabilities by testing whether the cut-off of post year end payments is appropriate</li> <li>• Verify creditors to supporting documentation and subsequent payments to ensure that creditors are correctly classified and recorded in the correct period</li> </ul>
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documented the processes and controls in place around accounting for operating expenses</li> <li>• Walkthrough tests to confirm the operation of the controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Agreement of staff costs per the financial statements to the General Ledger and the payroll system</li> <li>• Monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded</li> </ul>

## Other risks identified - Continued

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefits improperly computed	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documented the processes and controls in place around accounting for operating expenses</li> <li>• Walkthrough tests to confirm the operation of the controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Reconciliation of expenditure to welfare benefits system</li> <li>• Reconciliation of welfare benefit income to grant claim and cash received</li> <li>• Initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including,               <ul style="list-style-type: none"> <li>• housing benefit discovery testing</li> <li>• housing benefit analytical review</li> <li>• uprating model</li> <li>• software tool</li> </ul> </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. As part of this we identified that the Council is facing significant financial pressures in the medium term with worsening deficits in the next three financial years. We will undertake work in the following areas to address the risks identified:

- A review of the Council's financial resilience for 2014/15
- Consideration of the adequacy of the Council's medium term and longer term financial planning;
- Consideration of the progress the Council has made in identifying the savings plans to reduce the reliance on reserves and ensure it can set balanced budgets.

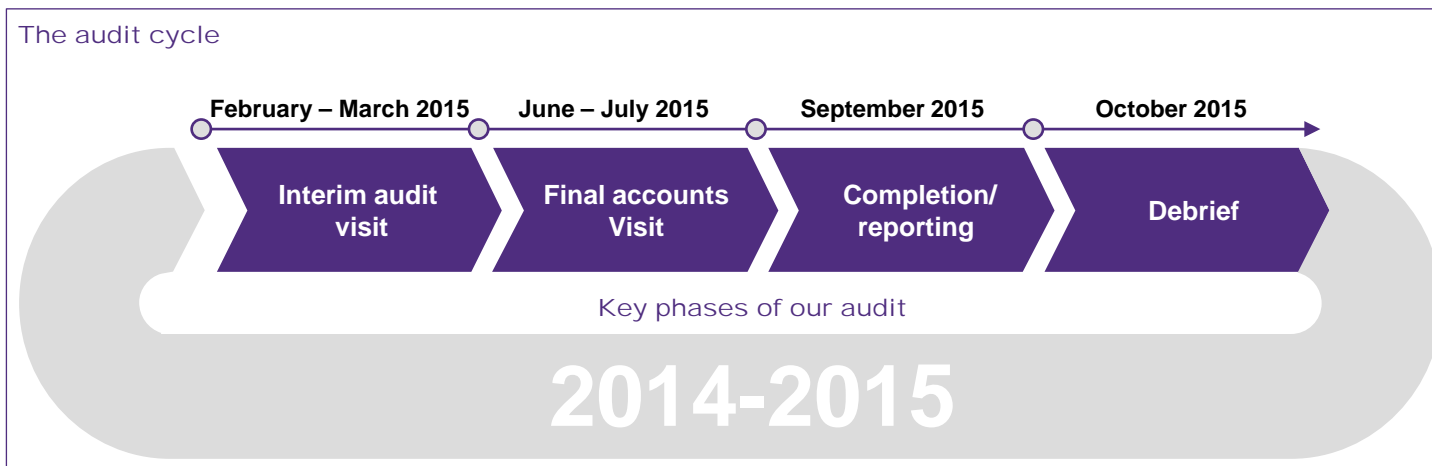
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# 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>	We have reviewed Internal Audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.	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.  We plan to review Internal Audit's work on the Council's key financial systems at our interim visit.
<b>Walkthrough testing</b>	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.  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.	Our work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <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>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

# Key dates



Date	Activity
<b>January 2015</b>	Planning
<b>February and March 2015</b>	Interim site visits
<b>April 2015</b>	Presentation of audit plan to Audit and Standards Committee
<b>June and July 2015</b>	Year end fieldwork
<b>August 2015</b>	Audit findings clearance meeting
<b>September 2015</b>	Report audit findings to those charged with governance (Audit and Standards Committee)
<b>September 2015</b>	Sign financial statements opinion
<b>October 2015</b>	Whole of Government Accounts reported on
<b>October and November 2015</b>	Housing Benefit Grant Claim completed
<b>November 2015</b>	Annual Audit Letter finalised

# Fees and independence

## Fees

	£
Council audit	179,647
Grant certification	17,540
<b>Total fees (excluding VAT)</b>	<b>197,187</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

As highlighted above, the fee assumption is that there have been no significant changes.

### 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 £
Certification of the 2013/14 Teacher Pensions Agency Return	6,500
Assistance with the strategic options for the research, development and manufacture of Very Light Rail.	25,000

### 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](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
<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		✓

# Communication of audit matters with those charged with governance (cont)

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Standards Committee).

Area of consideration	Current understanding based on planning and interim work to date
<b>Awareness of fraud or suspected fraud</b>	There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit and Standards Committee on a regular basis.
<b>Views about the risks of fraud</b>	<p>As with all large organisations there is an on-going risk of fraud being committed against the Council. However, arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan.</p> <p>The risk of material misstatement of the accounts due to undetected material fraud is considered to be low by management. This is consistent with the risk management processes that are in place within the Council.</p>
<b>Awareness of whistleblower referrals or complaints</b>	Internal Audit are involved in the investigation of whistleblower referrals or complaints with a potential financial impact. There are no material instances of fraud that have been identified during the year arising from whistleblower referrals or complaints.
<b>The Audit and Standards Committee's oversight of management's fraud risk assessment process</b>	<p>The Annual Governance Statement and Internal Audit Opinion are formally presented to the Audit and Standards Committee on an annual basis.</p> <p>The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process.</p>





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