

# The Audit Plan for South Ribble Borough Council

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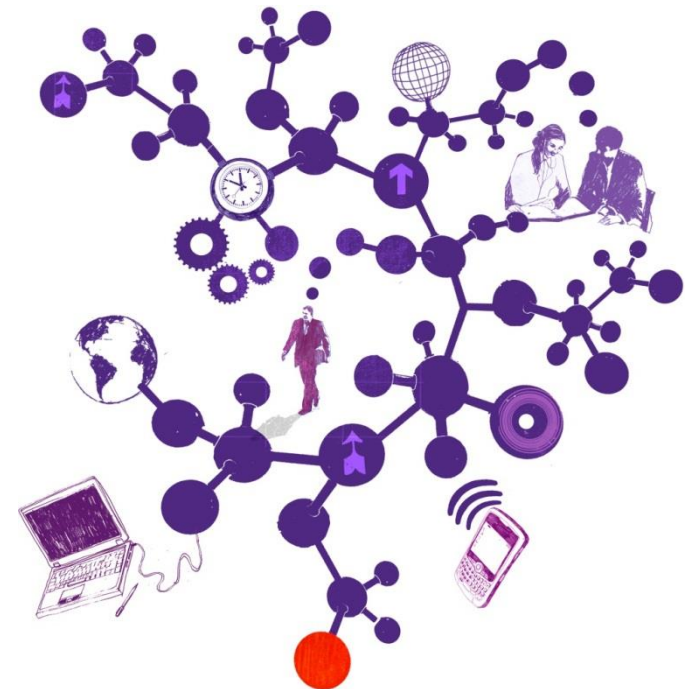
**Year ended 31 March 2014**

10<sup>th</sup> April 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

### 1. Budget

- The Council plans to deliver a balanced budget in 2013/14, including a planned transfer from General Fund reserves of £0.635m, and savings totalling £0.515m.
- Further savings of £1.545m are anticipated by the Council between 2014/15 and 2016/17.

### 2. Economic Downturn and new ways of working

- Need to continuously explore service delivery options.
- Maintain and encourage economic vitality in the area.

### 3. Changes in Business Rates and Council Tax support

- Implementation of the Council Tax discount scheme during 2013/14.
- Implementation of the Business Rates retention scheme from 2013/14.

### 4. Pensions

- The impact of 2014/15 changes to the Local Government pension Scheme (LGPS)



## Our response

- We will assess your arrangements for maintaining the Council's financial resilience as part of our Value for Money (VfM) assessment.

- As part of our VfM conclusion work, we will assess your arrangements for challenging the way services are delivered, for example through outsourcing, shared service arrangements, or in partnership with other bodies including the voluntary sector and community groups.
- We will act as a critical friend to help the Council explore future options.

- We will continue to discuss with officers the implementation and impact of the changes to Council Tax and Business Rates.

- We will discuss how the Council is planning to deal with the impact of the 2014/15 changes through our meetings with senior management

# 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.

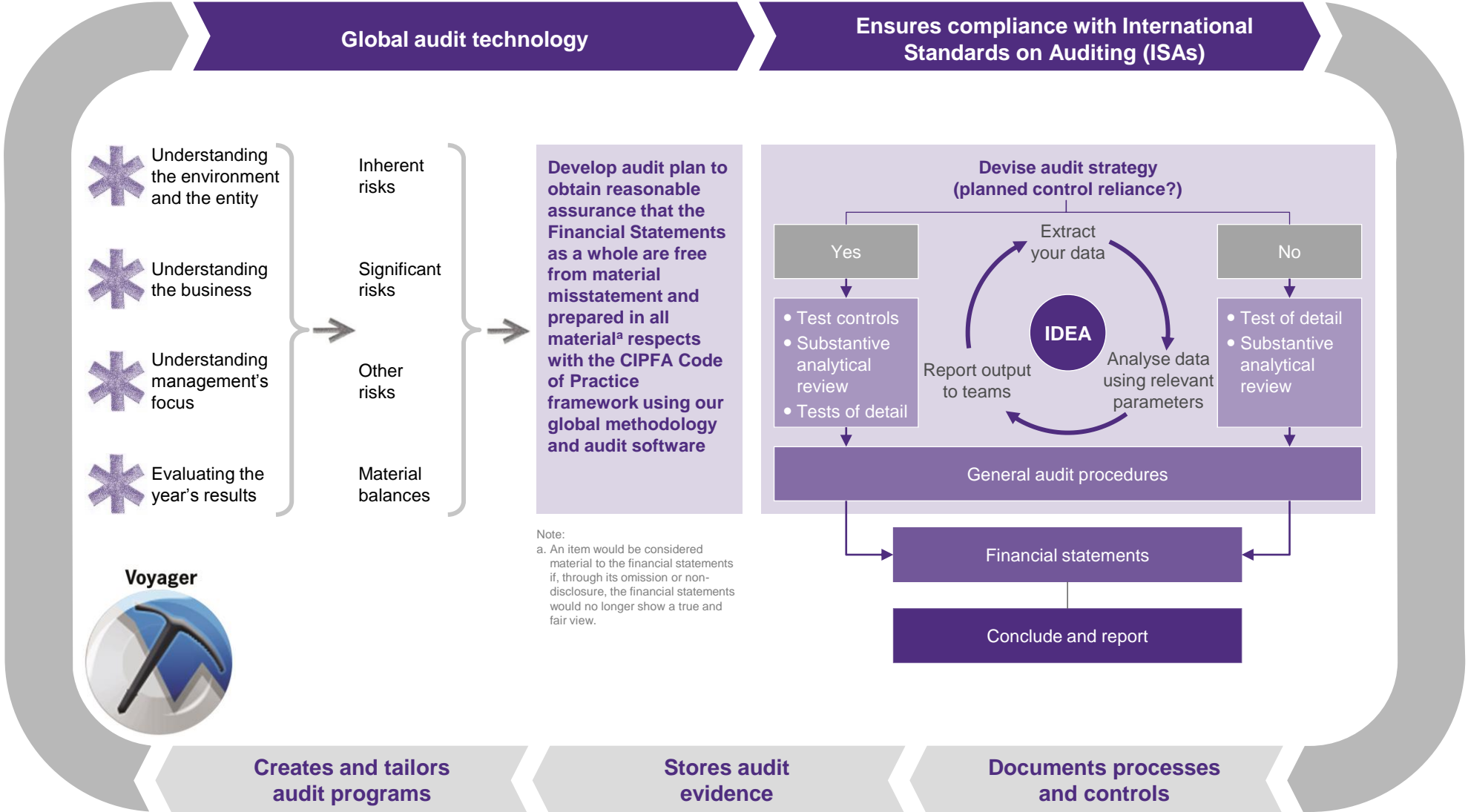
## Developments and other requirements

1. City Deal	2. Financial Reporting	3. Corporate governance	4. Legislation	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> <li>The Council has entered into an agreement with Lancashire County Council and Preston City Council as part of the City Deal aimed at improving local infrastructure and economic regeneration.</li> </ul>	<ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Clarification of Code requirements around PPE valuations</li> <li>Changes to NDR accounting and provisions for business rate appeals</li> </ul>	<ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<ul style="list-style-type: none"> <li>Local Government Finance settlement</li> <li>Welfare Reform Act 2012</li> </ul>	<ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<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>

## Our response

<ul style="list-style-type: none"> <li>We will obtain documentation around the City Deal and review to understand the nature of arrangement, and the impact on our work for 2013/14 and future years.</li> </ul>	<ul style="list-style-type: none"> <li>We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and related guidance through discussions with management and our substantive testing</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 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 Council's performance against the 2013/14 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 grant claims and returns in accordance with Audit Commission requirements</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.	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of revenue recognition policies.</li><li>• Testing of material revenue streams.</li></ul>
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.	<b>Work planned:</b> <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 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"> <li>• Understanding of the process, identification of controls and a walkthrough test conducted.</li> <li>• Substantive testing of the material operating expenditure in respect of waste management, leisure and the shared financial services arrangement with Chorley Borough Council.</li> <li>• Sample testing of other operating expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>• Sample testing and a review of significant items during the final accounts audit.</li> </ul>
Employee remuneration	Employee remuneration accrual understated.	<ul style="list-style-type: none"> <li>• Understanding of the process, identification of controls and a walkthrough test conducted.</li> <li>• Sample testing of payroll calculations and contracts of employment.</li> </ul>	<ul style="list-style-type: none"> <li>• Additional sample testing to ensure full coverage of the year</li> <li>• Rationalise payroll costs by reference to staff numbers, and salary increases applied in the year, together with comparison of monthly payroll expenditure, ensuring any unusual trends are satisfactorily explained.</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed.	<ul style="list-style-type: none"> <li>• Understanding of the process, identification of controls and a walkthrough test conducted</li> </ul>	<ul style="list-style-type: none"> <li>• Programme of work as part of the certification of the housing benefits subsidy grant claim</li> <li>• Sample testing of welfare benefit expenditure</li> </ul>



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# 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 area to address the local risk identified:

- The City Deal will have long term implications for the Council although is likely to have limited implications during 2013/14. We will complete work to understand the nature of the agreement and its implications for South Ribble and in this context consider its reflection in the Council's financial management and wider governance arrangements.

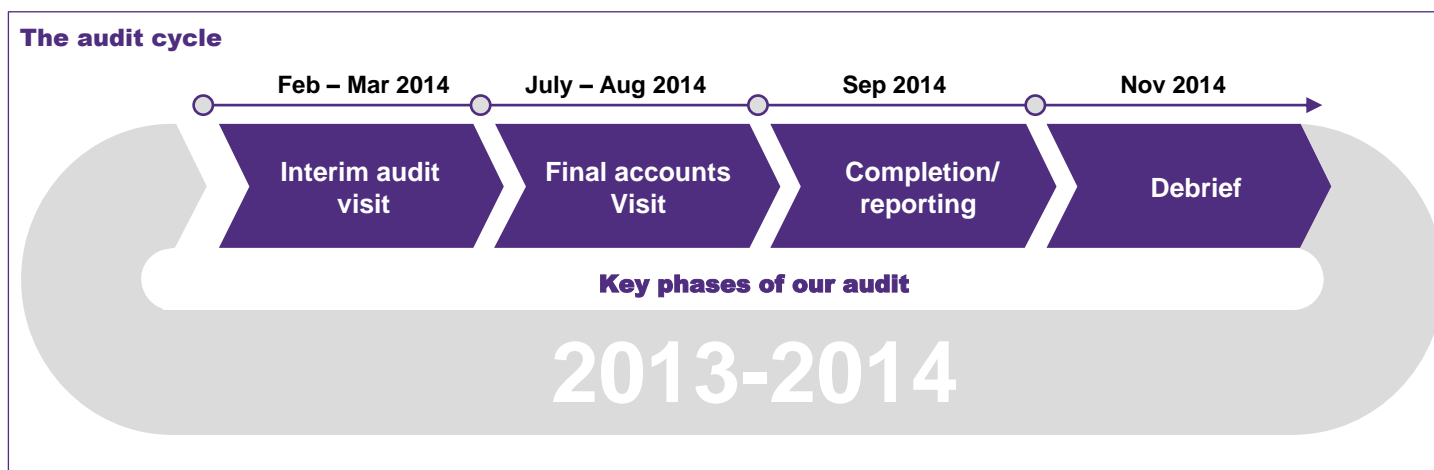
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

# Results of interim audit work to date

The findings of our interim audit work to date 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 considered internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit reports has not identified any weaknesses which impact on our audit approach.
<b>Walkthrough testing</b>	We have completed walkthrough tests of controls operating in respect of employee remuneration, operating expenses and welfare benefits expenditure. Our work has not identified any issues which we wish to bring to your attention.	Our work has not identified any weaknesses which impact on our audit approach. From our walk through of these systems the internal controls have been implemented in accordance with our documented understanding.
<b>Sample testing</b>	We have undertaken sample testing of operating expenses. This was based on a review of the council's three main areas of accounts payable expenditure; waste, leisure and shared financial services. In addition we completed a further sample of other operating expenses. No issues were identified from this testing carried out to date. We have also undertaken early testing of employee remuneration and to supporting documentation. No issues were identified from this testing.	We have not identified any issues to date from our early sample testing but further testing will be undertaken later in the year.

# Key dates



<b>Date</b>	<b>Activity</b>
<b>January 2014</b>	Planning
<b>Feb – March 2014</b>	Interim site visit
<b>April 2014</b>	Audit plan issued
<b>July 2014</b>	Final accounts visit commences
<b>July – August 2014</b>	On-going feedback with the Head of Finance
<b>September 2014</b>	Report audit findings to those charged with governance
<b>September 2014</b>	Issue financial statements opinion Issue VfM conclusion Issue Assurance Statement on the Council's Whole of Government Accounts return
<b>October 2014</b>	Issue Annual Audit Letter

# Fees and independence

## Fees

	£
Council audit	57,664
Grant certification	12,100
<b>Total fees (excluding VAT)</b>	<b>69,764</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

## 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](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		✓



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