

# The Audit Plan for Warwick District Council

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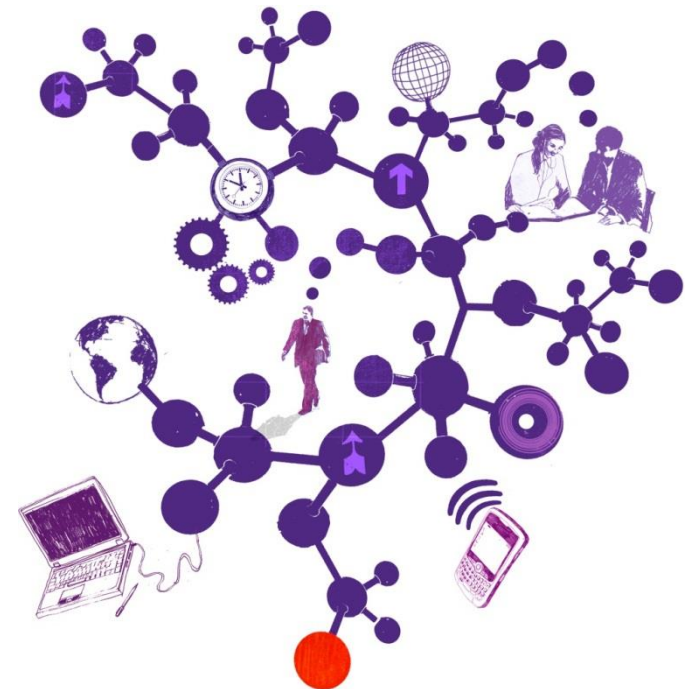
**Year ended 31 March 2014**

7 May 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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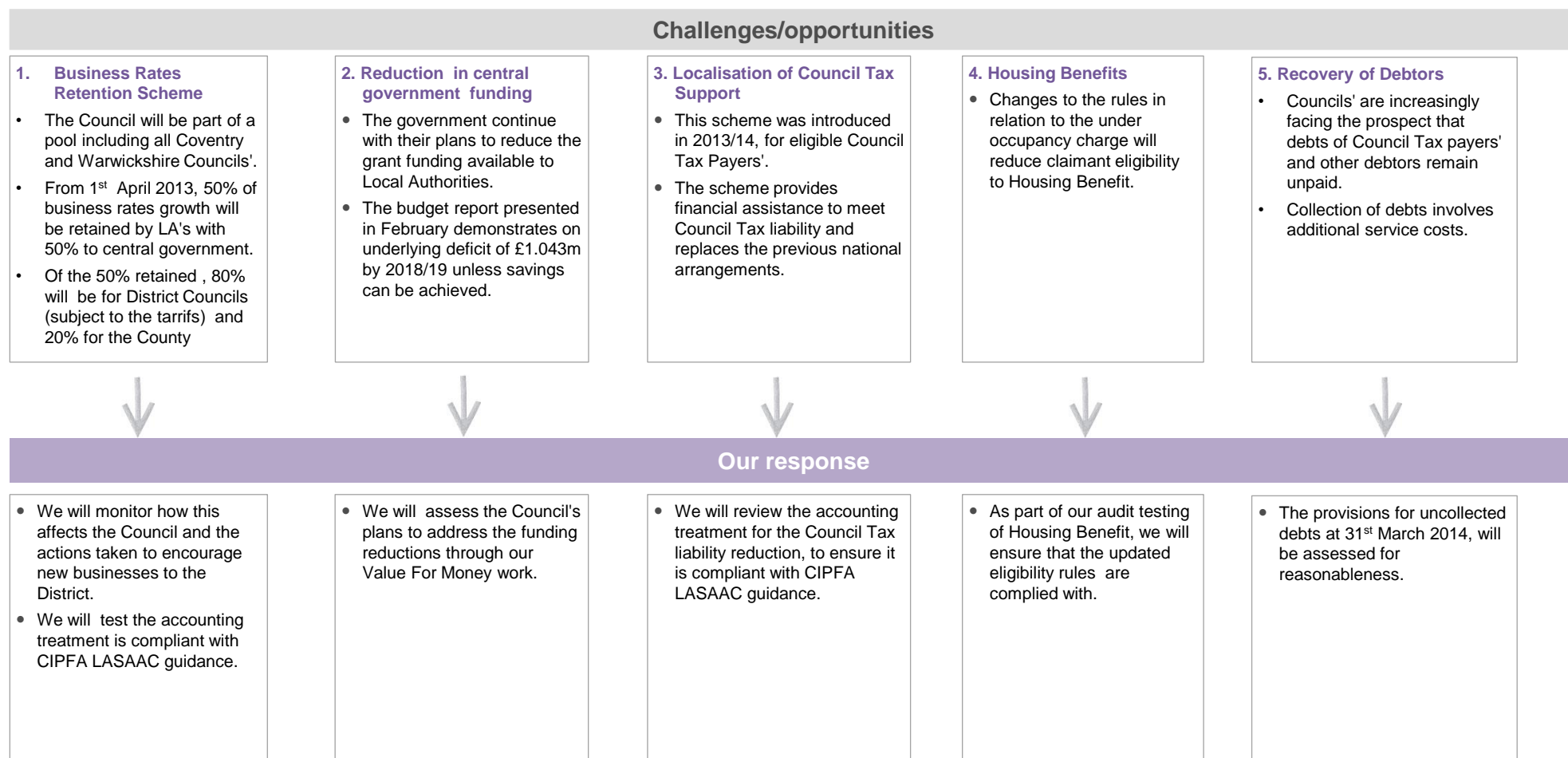
# Contents

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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.



# Our audit approach

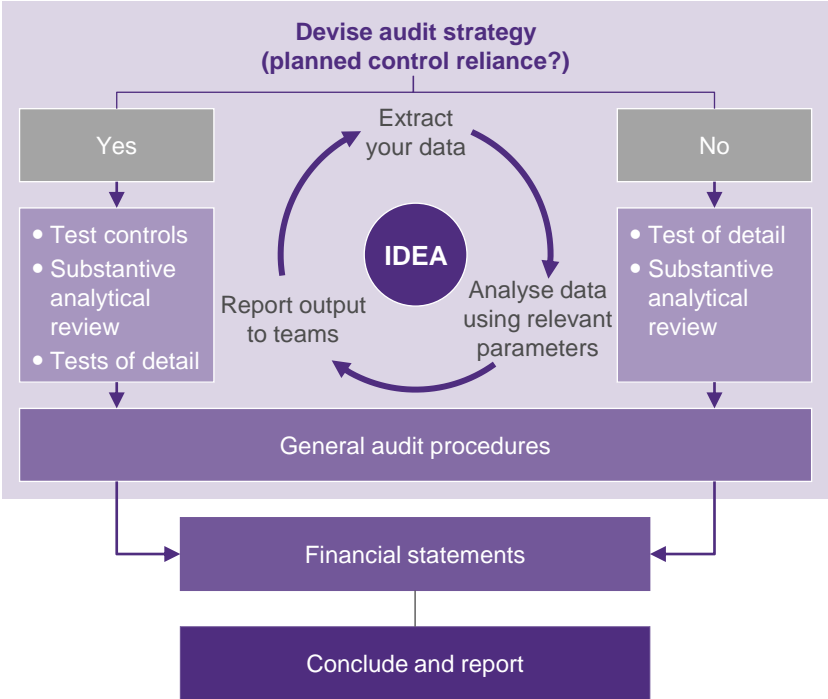
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- \* Understanding the environment and the entity
- \* Understanding the business
- \* Understanding management's focus
- \* Evaluating the year's results

Inherent risks  
Significant risks  
Other risks  
Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material<sup>a</sup> respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Creates and tailors audit programmes

Stores audit evidence

Documents processes and controls



# 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>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare Reform Act 2012</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. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of the 2013/14 changes to pension accounting.</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> </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

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</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 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 how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</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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# 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>We will:</b> <ul style="list-style-type: none"><li>• review and test revenue recognition policies.</li><li>• test 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>We will:</b> <ul style="list-style-type: none"><li>• Review the control environment for journal entries and testing of journals</li><li>• Review accounting estimates, judgements and decisions made by management</li><li>• Review 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.

Reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period (Completeness)	<ul style="list-style-type: none"> <li>We have conducted a walkthrough of the key controls for this system.</li> </ul>	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> <li>Review of monthly trend analysis of payments,</li> <li>Cut off testing of purchase orders and goods received notes (both before and after year end),</li> <li>The completeness of the reconciliations to the purchasing system..</li> </ul> <p>Testing will also cover a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accrual understated (Completeness)	<ul style="list-style-type: none"> <li>We have completed a walkthrough of the key controls for this system.</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out testing including:</li> <li>The completeness of the payroll reconciliation to ensure that the information from the payroll system can be agreed to the ledger and financial systems</li> <li>Sample of payments made in April and May to ensure payroll expenditure is recorded in the correct year.</li> <li>Review of monthly trend analysis of total payroll</li> </ul> <p>Testing will also cover a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>
Welfare Expenditure	Welfare benefit expenditure improperly computed (Valuation Gross)	<ul style="list-style-type: none"> <li>We have completed a walkthrough of the key controls for his system.</li> </ul>	<ul style="list-style-type: none"> <li>We will use the Audit Commission Housing Benefit HB Count methodology to test this item.</li> <li>Following the introduction of the Council Tax Reduction Scheme, we will devise suitable audit procedures to gain assurance over the balances within the accounts.</li> </ul>



## Other risks identified (continued)

Reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded (Completeness)	<ul style="list-style-type: none"> <li>We have conducted a walkthrough of the key controls for this system</li> </ul>	<ul style="list-style-type: none"> <li>Conduct various analytical procedures</li> <li>Testing will also cover a sample of transactions for the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</li> </ul>

Other risks	Description	Work completed to date	Further work planned
Business Rates	The introduction of the new arrangements for Business Rates presents a risk to the Council. The key changes for the accounts will be ensuring the correct accounting treatment is followed in preparing the accounts and the calculation of the provision for rating appeals.	<ul style="list-style-type: none"> <li>We have discussed with officers the implications of the introduction of the new scheme</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to work with officers to ensure that they are following the latest guidance in this area.</li> <li>Complete substantive tests to confirm that the authority's accounting treatment is compliant with the CIPFA Local Authority accounting guidance.</li> <li>Review the basis for the calculation of the provision and challenge management's rationale for the accounting estimates used.</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. We have not identified any specific risks to date and therefore our work will focus on the following:

- Review of our understanding of the processes the Council has to secure financial resilience,
- Review of our understanding of the processes the Council has to secure economy, efficiency and effectiveness, and
- Review of key documents, such as the medium term financial plan and the risk register.

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/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:

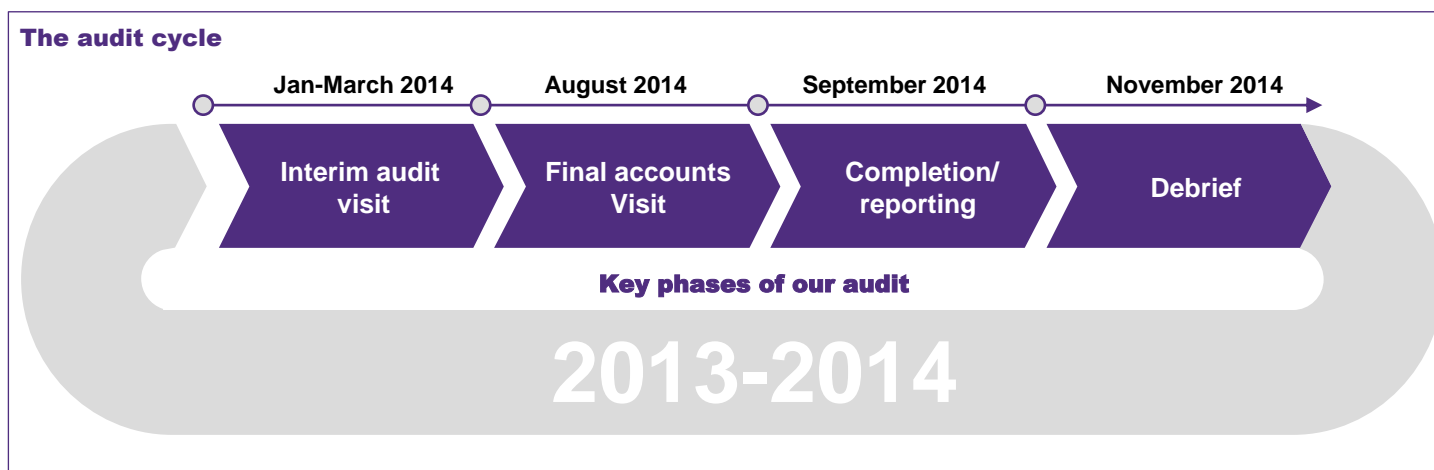
	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's 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>
<b>Walkthrough testing</b>	<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 identified that there is not currently a service level agreement in place with the county council for the provision of the payroll software services.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>The lack of a service level agreement presents a risk to the Council if the payroll software provided by the County Council fails.</p>
<b>Interim review of asset valuations</b>	<p>As a result of the clarification of the CIPFA Code of Practice ('the Code') in relation to asset valuations we have reviewed the planned programme of valuations. Our findings are set out below.</p> <p>The current programme of valuations includes only part of the Investment Properties class of assets. The Code requires that this class of assets should be revalued annually unless there is evidence to demonstrate that the final carrying value would not be materially different.</p> <p>The last full valuation of Heritage Assets took place in 2008. While the Code specifically states that a full valuation is not required every five years, it does require Council's to review the carrying amounts with sufficient regularity to ensure they remain current.</p> <p>The lack of an up to date valuation presents both a risk to the valuation disclosed in the balance sheet, but also an insurance risk. The lack of an up to date valuation could potentially mean that the Council is under insured on a significant proportion of it's assets.</p>	<p>Further evidence needs to be provided during the final accounts visit that the total carrying value of investment properties is not materially misstated.</p> <p>Further evidence needs to be provided during the final accounts visit to demonstrate that the total carrying value of heritage assets is not materially misstated.</p> <p>Officers should review whether appropriate insurance cover is in place for this class of assets.</p>

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## Results of interim audit work continued

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	We have reviewed the Council's entity level controls 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.	We will undertake detailed testing on journal transactions recorded in the financial year by extracting unusual entries for further review.
<b>Early substantive testing</b>	We have completed our testing of opening balances within the general ledger and verified the existence of all material assets held on the balance sheet.	There are no matters to report.

# Key dates



<b>Date</b>	<b>Activity</b>
Jan & Feb 2014	Planning
March 2014	Interim site visit
May 2014	Presentation of audit plan to Audit Committee
August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Head of Finance
September 2014	Report audit findings to those charged with governance -Finance and Audit Scrutiny Committee
September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	70,597
Grant certification	10,880
<b>Total fees (excluding VAT)</b>	<b>81,477</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.

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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