

# The Audit Plan for Tonbridge and Malling Borough Council

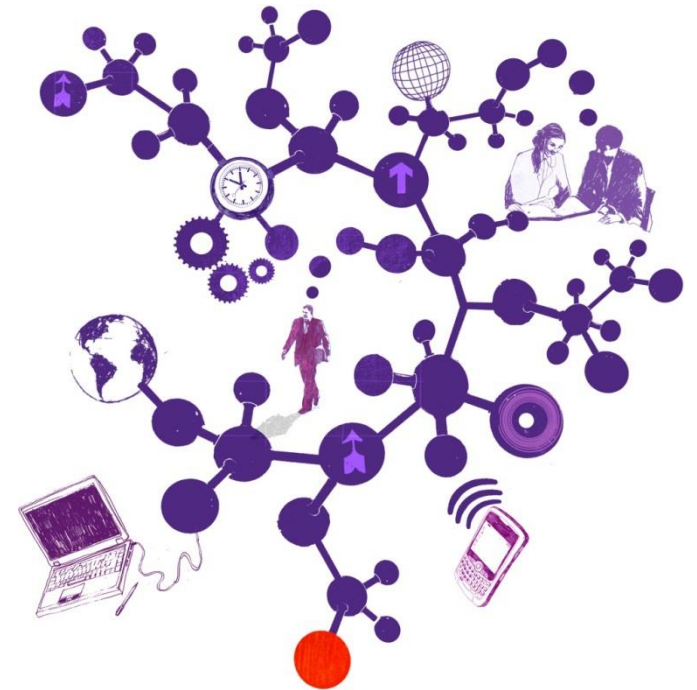
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**Year ended 31 March 2014**

March 2014

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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. Reduction in funding and financial position

- Since the Chancellor's Autumn statement in 2010 central government funding to local authorities has been reducing year on year. This financial environment continues to pose significant challenges for the Council

### 2. Tonbridge Town Centre regeneration project

- The Council has reached agreement with Sainsbury's on proposals for a major leisure and retail regeneration project in Tonbridge. The proposals are subject to planning permission. Should it proceed successful delivery of this project would be a key focus for the Council over the coming year.

### 3. Local government finance reforms

- The Local Government Finance Act 2012 introduced changes to the framework for council tax support and business rates with effect from 1 April 2013. The Council has been required to put in place new arrangements locally to implement these changes.

### 4. Establishment of the Tonbridge & Malling Leisure Trust

- The Council has entered into an agreement with the new Tonbridge & Malling Leisure Trust for the management of the Council's leisure facilities with effect from 1 November 2013.

### 5. Financial statements

- The Department for Communities and Local Government (DCLG) is proposing to bring forward the timetable for closure of accounts by up to two months, with any change potentially happening as early as 2015/16. Any significant acceleration of the timetable for accounts submission would require the Council to review its processes for accounts preparation.

## Our response

#### We will

- review the Council's approach to strategic financial planning, financial governance and financial control as part of the work to support our value for money conclusion.

#### We will

- monitor the progress of the proposals through our regular meetings with senior management
- consider the implications for the Councils 2013/14 accounts should planning permission be received before the accounts are approved.

#### We will

- consider the new arrangements for council tax support and business rates and review how the impact of the reforms has been incorporated into the Council's medium term financial plans.
- consider accounting issues associated with the reforms and review the Council's treatment against the 2013/14 Accounting Code of Practice.

#### We will

- consider any 2013/14 accounting and disclosure issues associated with the new arrangements.

#### Although not an issue for 2013/14 we will

- work with the Council to help identify ways of streamlining the accounts preparation process if any acceleration of the accounts timetable is confirmed.

# 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. Financial reporting

- Changes to the CIPFA Code of Practice, including clarification of Code requirements around PPE valuations and changes to accounting for business rates.

### 2. Legislation

- Local Government Finance settlement
- Welfare reform Act 2012

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 4. Pensions

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

### 6. Other requirements

- 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

## Our response

### We will

- liaise with the Council's finance team on relevant issues prior to the accounts being prepared
- ensure that the Council complies with the requirements of the CIPFA Code of Practice through our work to review the 2013/14 financial statements

### We will

- discuss the impact of legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

### We will

- review the arrangements the Council has in place for the production of the AGS
- review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

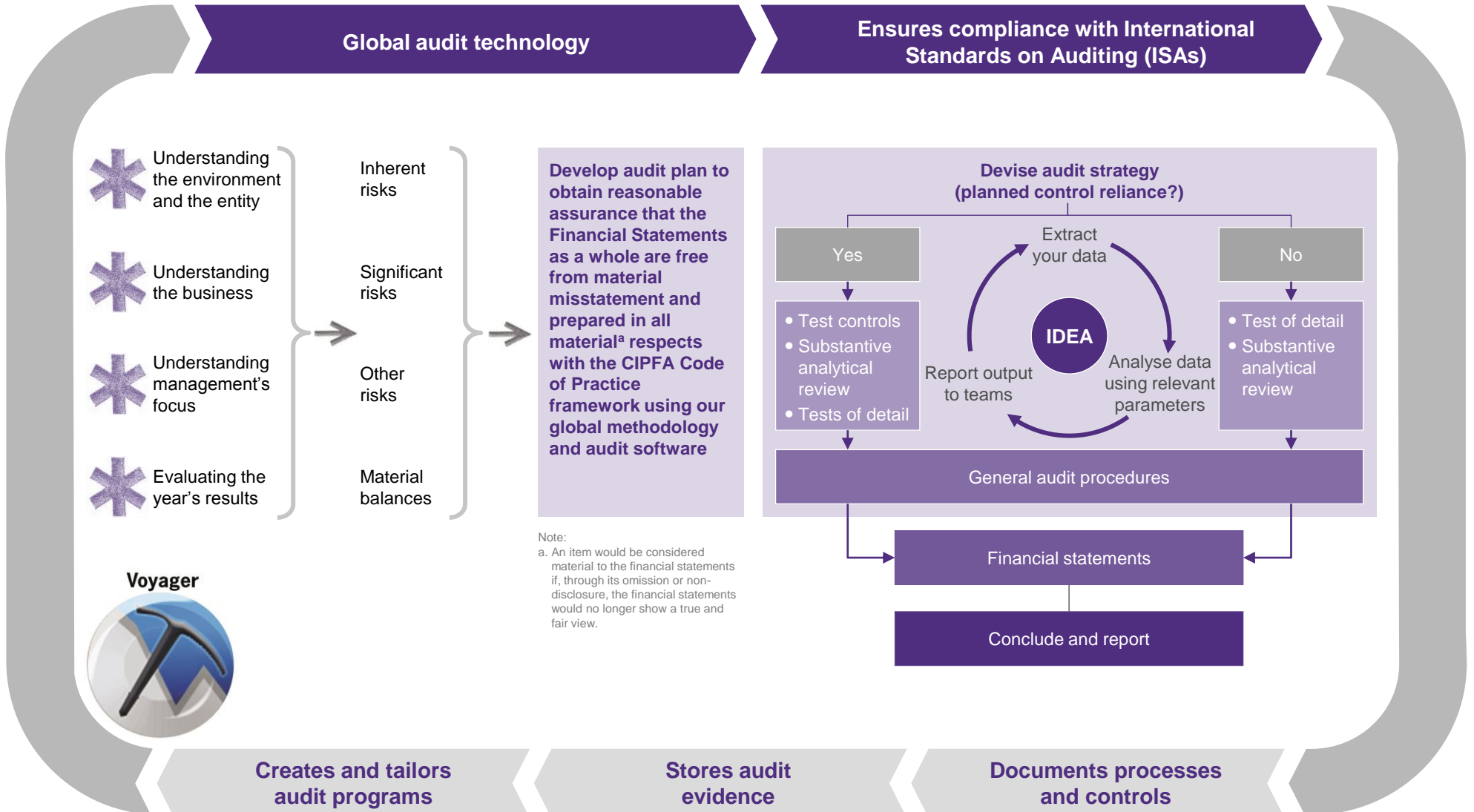
### We will

- discuss with management the Council's preparations for the changes to the LGPS from 1 April 2014

### We will

- carry out work on the WGA pack in accordance with requirements
- certify grant claims and returns in accordance with Audit Commission requirements

# 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 and testing 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 completed to date:</b> <ul style="list-style-type: none"><li>• Testing of journal entries to 31 January 2014</li></ul> <b>Further 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 for the remainder of the year</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>Identification and walkthrough of system controls</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of creditor balances</li> <li>Cut-off testing to ensure that transactions have been recorded in the correct accounting period.</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Identification and walkthrough of system controls</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of payroll expenses</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Identification and walkthrough of system controls</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of a sample of benefit claims</li> <li>Review reconciliation of benefit expenditure to the benefit subsidy claim</li> <li>Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Identification and walkthrough of system controls</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate the qualifications and work of the valuation expert</li> <li>Substantively test revaluations to supporting documentation</li> <li>Review supporting documentation to confirm overall carrying value per accounts does not differ materially from fair value.</li> </ul>



# 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>	<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 to date 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 not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Review of information technology controls</b>	<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>This work is planned for May 2014.</p>

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We have undertaken testing of journal transactions for the first ten months of the financial year.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. We will perform testing of journal entries for the remainder of the financial year as part of our yearend work on the Council's financial statements.</p>
<b>Early substantive testing</b>	<p>We have agreed that the Council's opening balances for 2013/14 agree to the closing ledger balances for 2012/13.</p>	<p>Our work has not identified any issues which we wish to bring to your attention.</p>

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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:

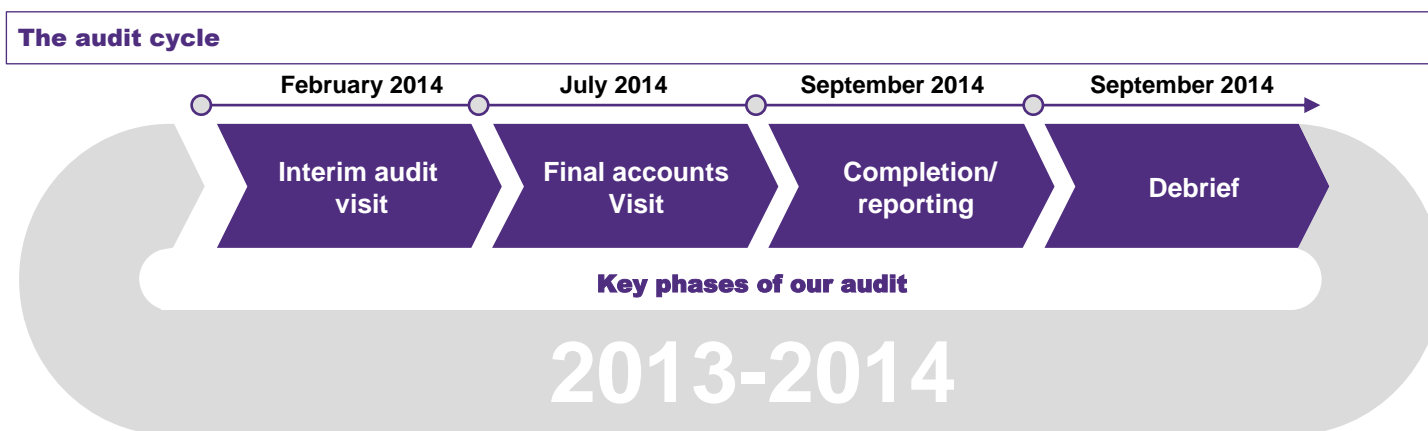
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate 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 performed an initial risk assessment to inform our VfM conclusion work. We will perform the following work to address the risks identified;

- consider if the Council's medium term financial strategy remains robust, including the adequacy of its plans to address any potential funding gap.

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.

# Key dates



<b>Date</b>	<b>Activity</b>
<b>January 2014</b>	Planning
<b>February 2014</b>	Interim audit visit
<b>14 April 2014</b>	Presentation of audit plan to Audit Committee
<b>June/July 2014</b>	Final accounts work
<b>1 September 2014</b>	Report audit findings to the General Purposes Committee
<b>By 30 September 2014</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	60,135
Grant certification	27,400
<b>Total fees (excluding VAT)</b>	<b>87,535</b>

## Our fee assumptions include:

- Supporting schedules for all figures in the accounts are supplied by the agreed dates and in accordance with the agreed information request list
- The scope of the audit and the Council's activities has not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide responses to audit queries

## 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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