

# The Audit Plan for Torbay Council 2013/14

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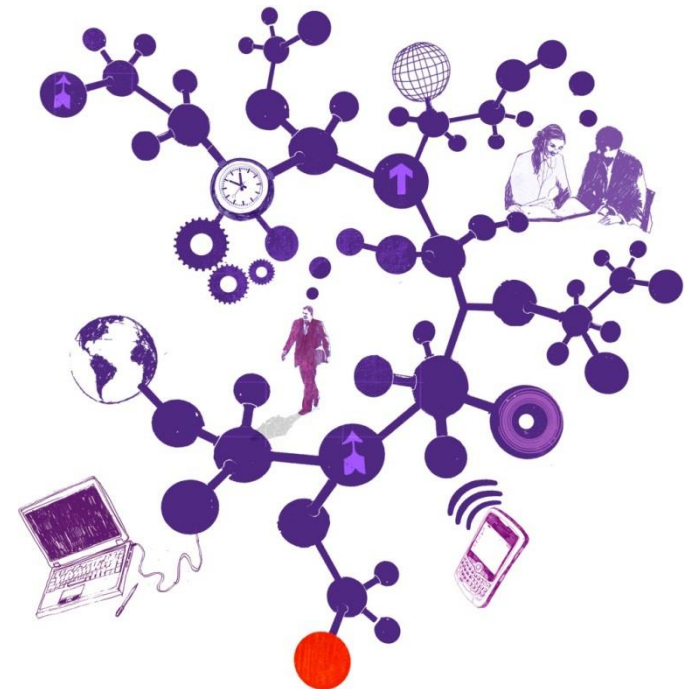
**Year ended 31 March 2014**

25 June 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

## **Section**

|   |    |
|---|----|
| 1. Understanding your business  | 4  |
| 2. Developments relevant to your business and the audit               | 5  |
| 3. Our audit approach   | 6  |
| 4. Significant risks identified                                       | 7  |
| 5. Other risks  | 8  |
| 6. Results of interim work  | 9  |
| 7. Value for Money  | 10 |
| 8. Key dates  | 11 |
| 9. Fees and independence  | 12 |
| 10. Communication of audit matters with those charged with governance | 13 |

# 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. Financial Resilience

- The Council has achieved its financial plans in recent years. However, the Council faces further reductions in the funding it receives in future years.
- The MTFP (2013/14 to 2017/18) model predicts an estimated cumulative shortfall on the General Fund budget of £25,389k by 2017/18.

### 2. Business Rate Retention Scheme

- The introduction of local accounting for business rates introduces a new approach to the treatment of business rates, which includes the need to provide for appeals
- The Council also participates in the Devon business rates pool to help reduce the impact of variances in business rates collected across Devon.

### 3. Waste PFI

- Torbay Council in partnership with Devon County Council and Plymouth City Council are seeking to conclude a PFI scheme with a private operator to dispose of waste. The costs of the agreement will be shared between the local authority partners. The impact on the revenue budget will be finalised as the project moves towards completion which is expected in 2014/15.

### 4. Unfunded Pensions liability

- The Council has unfunded pension liabilities arising from 1 April 1998 when it became a unitary authority. The Council is not recognising a long term liability in respect of this.

### 5. Better Care Fund

- The June 2013 Spending round announced that the Government would put £3.8 billion into a pooled budget in 2015/16 to ensure closer integration between health and social care.
- Local authorities and health partners are required to develop integrated care plans.

## Our response

- We will review the Council's savings plans as part of our VfM work.
- We will review the Council's financial forecasts and estimates as part of our risk planning for the audit of the financial statements
- We will update our assessment of the Council's financial resilience.

- We will liaise with the Council's finance team to agree:
  - the presentation in the financial statements; and
  - the assumptions used to provide for appeals.

- We will review the proposed accounting treatment for the asset.
- We will consider the impact on the Council's capital programme and medium term financial strategy.

- We have been discussing accounting treatment with officers during the year. We will review the proposed accounting treatment for the liability in the 2013/14 accounts.

- We will consider progress in the evolving arrangements in integrating health and social care through the Better Care Fund agenda as part of our work in reaching our vfm 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.

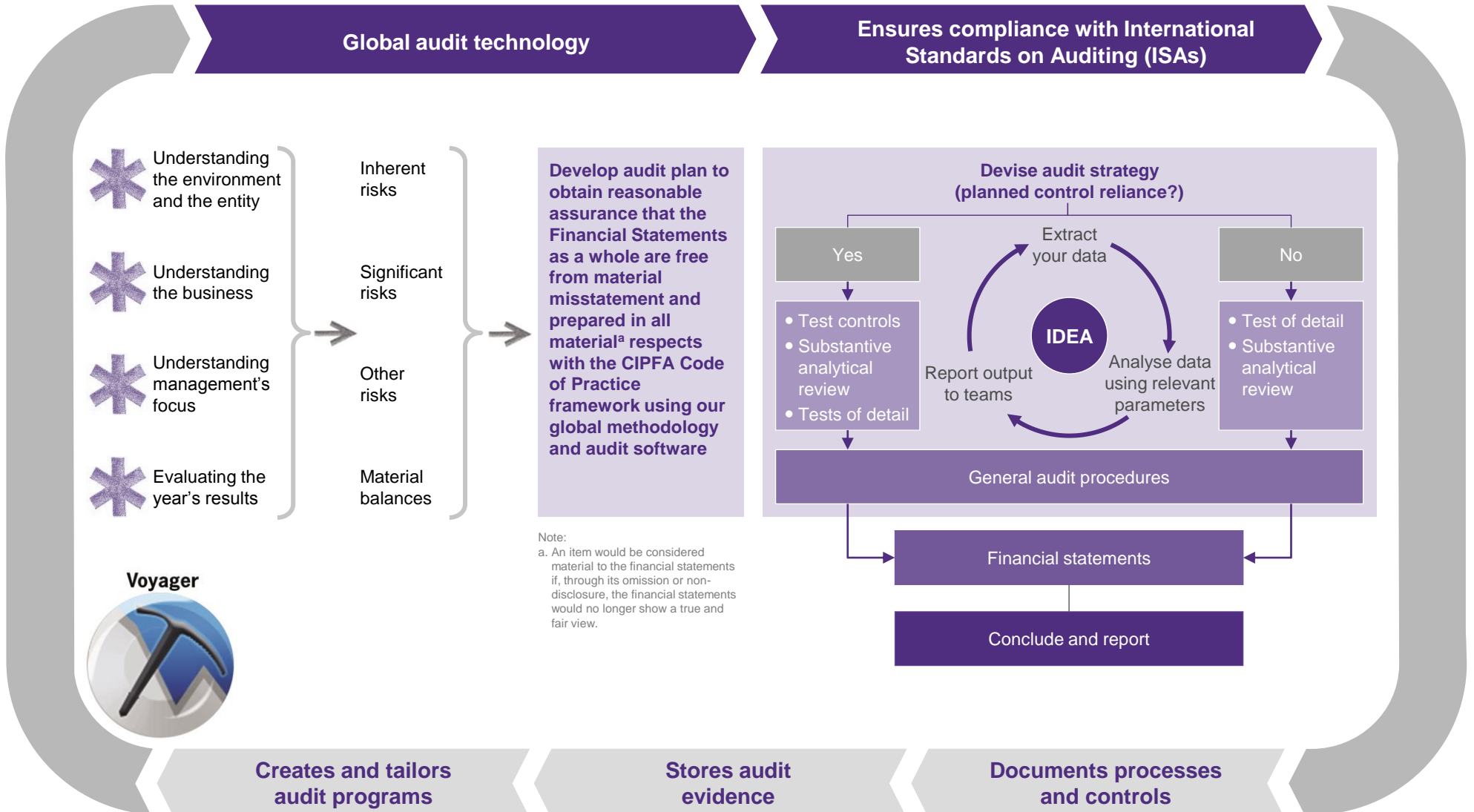
## Developments and other requirements

| 1. Financial reporting  | 2. Legislation   | 3. Corporate governance   | 4. Pensions   | 5. Financial Pressures  | 6. Other requirements  |
|---|--|---|---|---|--|
| <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 business rates accounting and provisions for business rate appeals</li> <li>• Transfer of assets to Academies</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>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul> | <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</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 the housing benefit subsidy claim on which audit certification is required</li> </ul> |

## 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> <li>• schools are accounted for correctly and in line with the latest guidance</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 the housing benefit subsidy claim in accordance with Audit Commission requirements</li> </ul> |
|--|--|--|---|--|--|

# 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 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>Review of system documentation and walkthrough of transaction</li> <li>Substantively test a sample of operating expenses</li> </ul>        | <ul style="list-style-type: none"> <li>Substantively test a sample of expense transactions in month 12 and year end adjustments/reconciliations.</li> <li>Review and testing of creditors/liability balances of unusual and large amounts.</li> <li>Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised</li> </ul> |
| Employee remuneration           | Employee remuneration accruals understated   | <ul style="list-style-type: none"> <li>Review of system documentation and walkthrough of transaction</li> <li>Substantively test a sample of remuneration transactions</li> </ul> | <ul style="list-style-type: none"> <li>Substantively test a sample of remuneration transactions to underlying evidence</li> <li>Analytical procedures over the payroll figures throughout the year to ensure that they are reasonable and complete.</li> <li>Review the year end reconciliation of the payroll system to the HMRC return and the ledger</li> </ul>                         |
| Welfare Expenditure             | Welfare benefits improperly computed   | <ul style="list-style-type: none"> <li>Review of system documentation and walkthrough of transaction</li> <li>Verifying system parameters</li> </ul>                              | <ul style="list-style-type: none"> <li>Review the reconciliation of the housing benefit system to the general ledger</li> <li>Agree the Housing Benefit claim to the accounts</li> <li>Substantive testing of welfare expenditure for the whole year to gain assurance over the welfare expenditure figures.</li> </ul>  |
| Property, Plant & Equipment     | Property, plant and equipment activity not valid<br>Revaluation measurement not correct<br>Property, plant and equipment improperly expensed | <ul style="list-style-type: none"> <li>Work will be undertaken as part of year end procedures</li> </ul>  | <ul style="list-style-type: none"> <li>Review the system documentation and walkthrough of a transaction</li> <li>Substantively test the accounting treatment for the valuation to ensure it has been correctly applied</li> <li>Reconcile valuers' report to Fixed asset register</li> <li>Substantive testing of a sample of fixed asset additions.</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:

|  | 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, at this point in time, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and contributes to an effective internal control environment at the Council.</p> <p>We will review future reports issued by internal audit to consider their findings and whether there is any 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> <ul style="list-style-type: none"> <li>• Operating expenses</li> <li>• Employee Remuneration</li> <li>• Welfare Expenditure</li> <li>• Property, Plant &amp; Equipment (valuation)</li> </ul> <p>Our work to date 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 to date has not identified any weaknesses which impact on our audit approach. We will conclude our walk through testing on Property, Plant &amp; Equipment at our final accounts audit.</p>   |
| <b>Review of information technology controls</b> | <p>Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p>  | <p>We have yet to conclude our review and we will report the results to management and summarise any issues for those charged with governance before the financial statements are approved.</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:

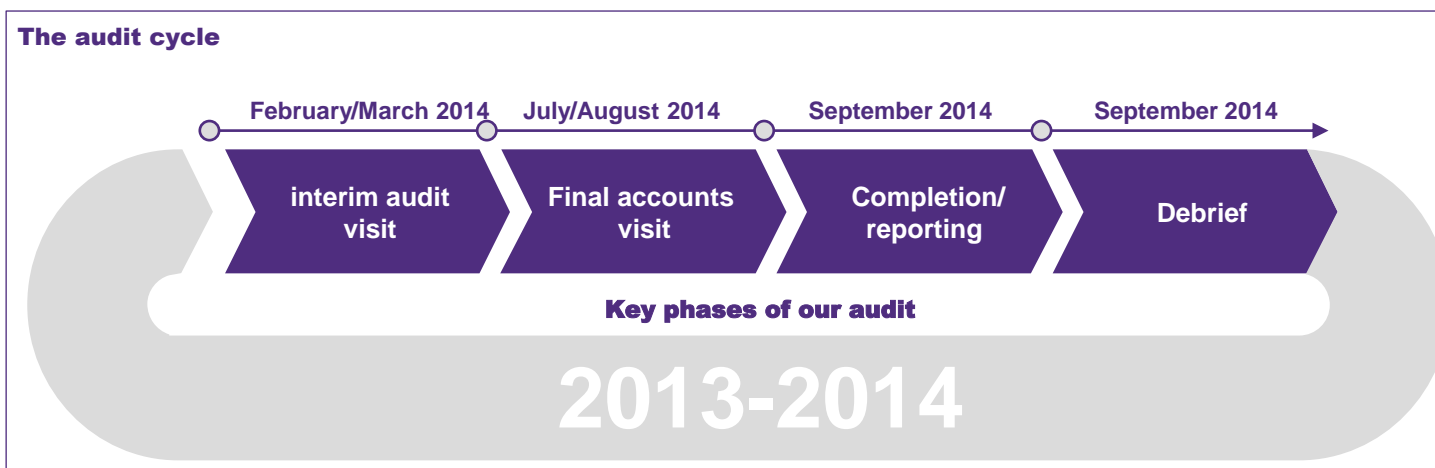
| VfM criteria  | Focus of the criteria  |
|---|--|
| The organisation has proper arrangements in place for securing financial resilience                           | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial 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 undertaken a risk assessment to identify areas of risk to our VfM conclusion. As in 2012/13 the financial resilience of the Council's finances remains the only risk identified.

We will undertake work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance to members. We do not plan to undertake any other specific reviews to support our VfM conclusion.

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>  |
|----------------------------------|--|
| January 2014                     | Planning   |
| 10 February 2014 & 24 March 2014 | Interim site visit   |
| 25 June 2014                     | Presentation of audit plan to Audit Committee                            |
| 16 June -August 2014             | Year end fieldwork   |
| August 2014                      | Audit findings clearance meeting with Executive Head of Finance          |
| 24 September 2014                | Report audit findings to those charged with governance (Audit Committee) |
| September 2014                   | Sign financial statements opinion  |

# Fees and independence

## Fees

|                     | £              |
|---------------------|----------------|
| Council audit       | 135,000        |
| Grant certification | 10,605         |
| <b>Total</b>        | <b>145,605</b> |

## Our fee assumptions include:

- Our fees are exclusive of VAT
- 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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