

The Audit Plan for Maidstone Borough Council

Year ended 31 March 2015

30 March 2015

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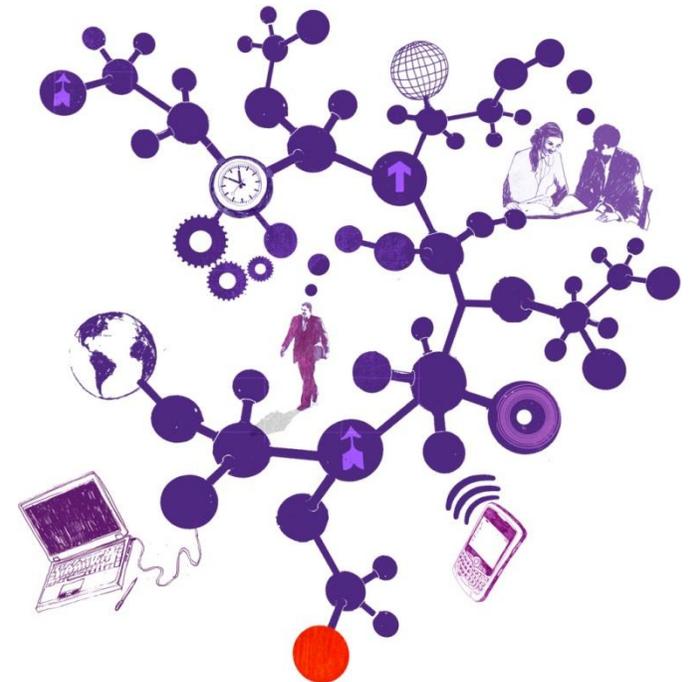
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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. Partnership working

- You work in partnership with a number of other district councils through the Mid Kent Partnership
- ensuring partnership governance arrangements are appropriate is key to continued success. Working with your partners, the governance arrangements are being strengthened

2 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 are facing increasing demands for school places and adult social care services.

3. New governance arrangements

- The Council has made a decision to revert to a committee system from May.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May.

5. Specific issues

- The Council has launched a Strategy of Commercialisation as part of its response to reducing funding from central government

Our response

- We will monitor the changing governance structures as part of our value for money conclusion.

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

- We will maintain a watching brief on the change to the governance arrangements during our audit.

Although not an issue for 2014/15 we will

- continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

- We will consider progress against your Commercialisation Strategy as part of our value for money 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

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. 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 ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

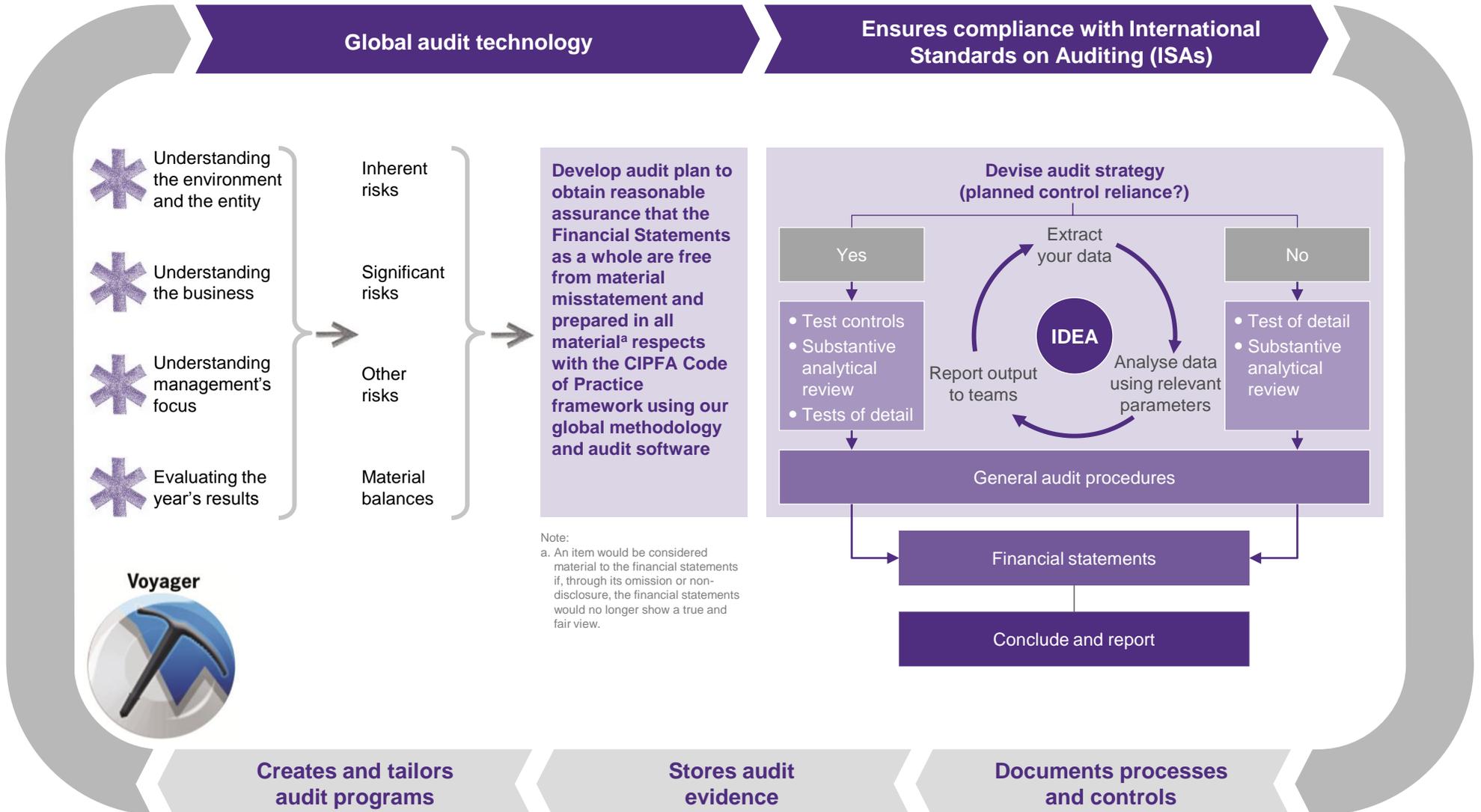
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

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

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- 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.

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
<p>The revenue cycle includes fraudulent transactions</p>	<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 Maidstone Borough Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. • there are robust controls to prevent and detect material misstatement of revenue, including monitoring by senior management.
<p>Management over-ride of controls</p>	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of entity level controls to ensure they address risk of management override. • Review of the basis of accounting estimates, judgments and decisions made by management in previous years to assess if there are risks for the current year. • Review of controls around processing of journal entries and testing of journals in the first 10 months of the year. • Testing of journal entries for months 1 - 10 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management at year-end. • Testing of journal entries for the final 2 months and as part of closedown. • Review and testing of unusual significant transactions.

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	Completeness Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none">• Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2015. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed, except that we need to review year-end reconciliation controls later in the year. Further work planned: <ul style="list-style-type: none">• Search for unrecorded liabilities either side of the balance sheet date.• Test purchase orders system to identify unrecorded liabilities not accrued for.• Document the Council's accruals process, review and test a sample of accrued amounts.

Other risks identified (continued)

Other risks	Description	Audit Approach
Welfare Expenditure	<p>Valuation – gross Welfare benefit expenditure improperly computed</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls on the housing benefits system. <p>Further work planned:</p> <ul style="list-style-type: none"> • Agree housing benefits paid per the ledger to the housing benefits system and reconcile to the housing benefits subsidy claim. • Substantive testing to check system parameters; the calculation of a sample of benefit cases ; analytical review of expenditure; and checking the claim is correctly generated from system using the software provider's guidance notes.
Employee remuneration	<p>Completeness Employee remuneration and benefit obligations and expenses understated</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls on the payroll system. • Performed substantive testing of employee expenses during the first eleven months of the year. <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconcile employee remuneration per the payroll system to the general ledger. • Perform substantive testing of employee expenses in month twelve • Perform trend analysis of movements in total employee costs and follow up testing on unexpected movements. • For the pension fund liability recognised in the accounts, review the basis of the scheme, evaluate the work performed by the scheme actuary and test the basis on which the liability is recognised in the financial statements.

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 assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- We will review the robustness of savings plans included in the Council's medium term financial strategy and in particular the impact on reserves in the next 3 to 5 years.
- We will review your report on the implementation of shared services and determine whether they have helped to improve the arrangements for ensuring value for money of the Council's services. In particular, we will consider how you have addressed the difficulties in the planning service .
- We will review the basis of setting and monitoring delivery of your capital programme.
- We will review your process for updating the risk register and ensuring it reflects all relevant risks, and is used as a tool to manage risks proactively.

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:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. 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>
Walkthrough testing	<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>There are some controls that only operate at year end. We will walkthrough the operation of these at our next audit visit.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

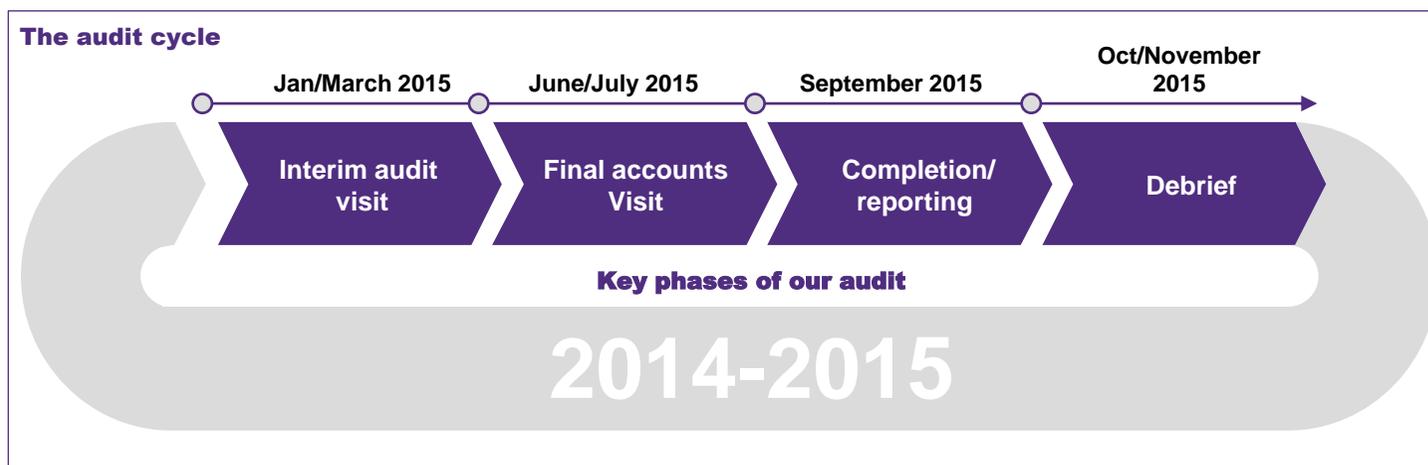
Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>We have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed generally to have been implemented in accordance with our documented understanding.</p>	<p>We did not identify any significant deficiencies, which we consider to result in material misstatement of your financial statements.</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures 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.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>We will complete our journals testing as part of our year end audit in July. The results of this work will be reported to the Audit Committee in our Audit Findings Report.</p>
Early substantive testing	<p>We have tested a sample of 25 employees, out of a total sample of 28, in order to determine whether or not expenditure is valid, and payroll costs (PAYE, NI, Pension) have been calculated correctly.</p>	<p>Our interim work in this area has not identified any issues that we wish to draw to your attention.</p> <p>We will complete our testing for the remaining part of the year as part of our year end audit in July. The results of this work will be reported to the Audit Committee in our Audit Findings Report.</p>
Value for money	<p>We have completed our initial risk assessment which is based on our review of:</p> <ul style="list-style-type: none"> • your committee minutes and papers • your budget setting report and medium term financial strategy; • your quarterly monitoring reports for both financial and non-financial performance; • internal audit reports; and • discussions with key officers. <p>The work that we plan to carry out as a result is set out earlier in this plan.</p>	<p>We will carry out more detailed work during March and April and report our findings in the Audit Findings report in September.</p>

Key dates



Date	Activity
5 – 9 January 2015	Planning
3 – 13 March 2015	Interim site visit
30 March 2015	Presentation of audit plan to Audit Committee
29 June – 31 July 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Head of Finance & Resources and Chief Accountant
September 2015	Report audit findings to the Audit Committee
By 30 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	67,300
Grant certification	13,910
Total fees (excluding VAT)	81,210

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

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, will be shown under 'Fees for other services.'

Fees for other services

Service	Fees £
None	Nil

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).

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
Our communication plan		
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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