



# The Audit Plan for Maidstone Borough Council

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**Year ended 31 March 2014**

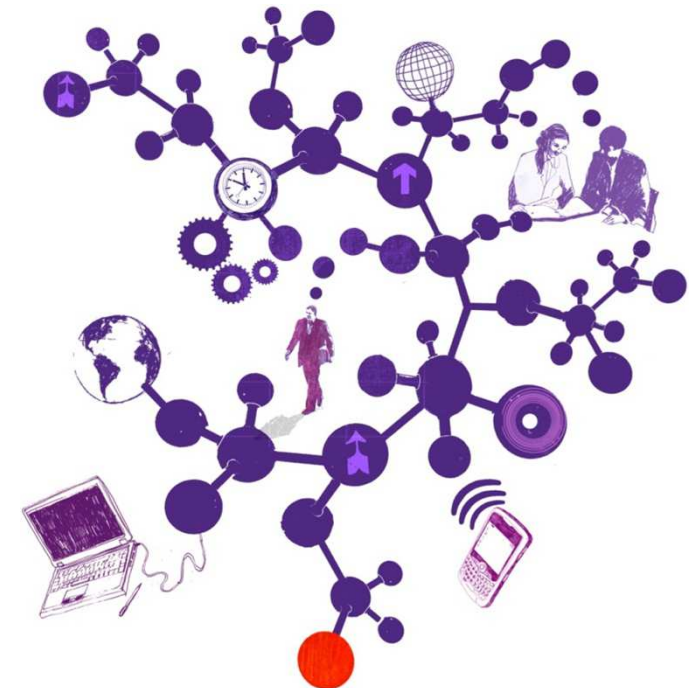
June 2014

**Darren Wells**

Director  
T +44(0)1293 554 120  
E [Darren.J.Wells@uk.gt.com](mailto:Darren.J.Wells@uk.gt.com)

**Keith Hosea**

Manager  
T +44(0)20 7728 3231  
E [Keith.J.Hosea@uk.gt.com](mailto:Keith.J.Hosea@uk.gt.com)



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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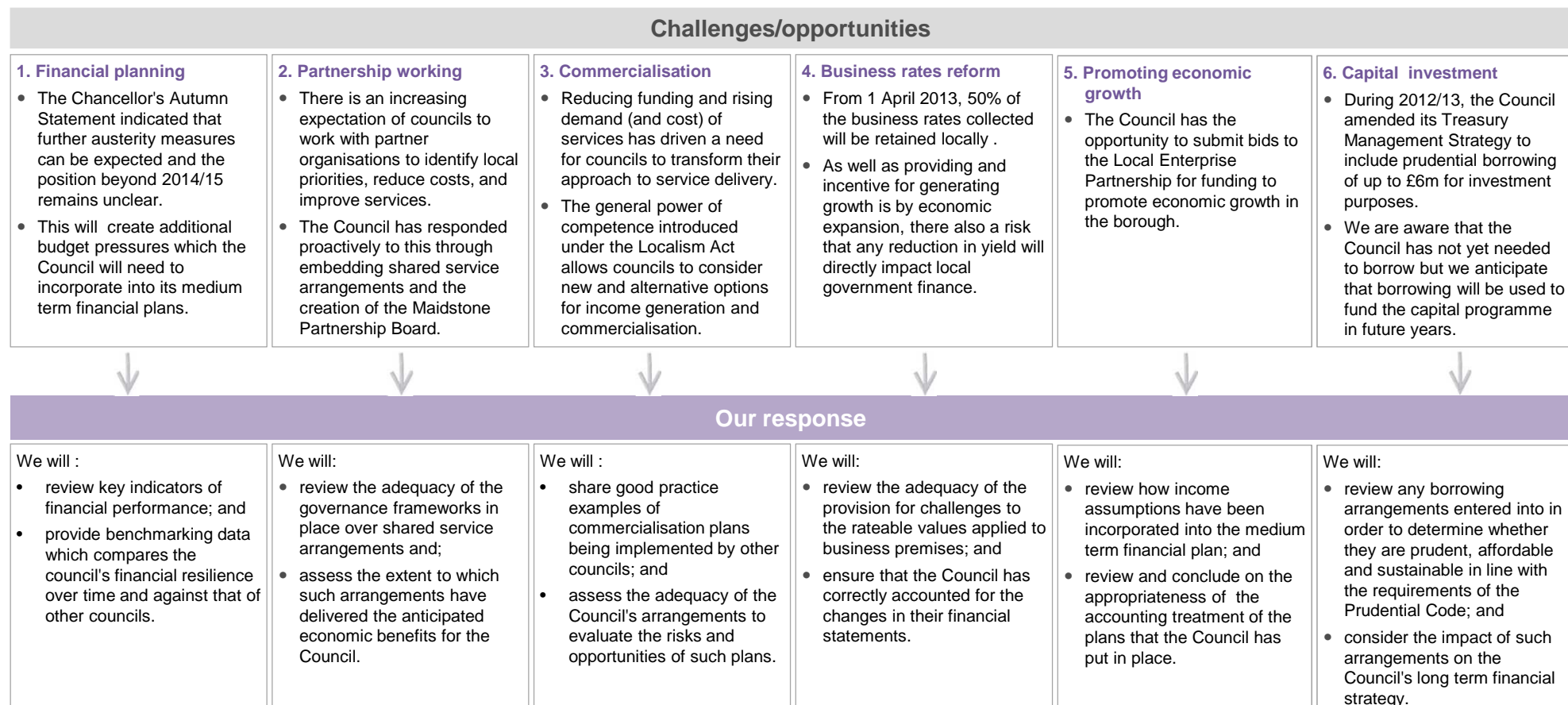
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# Understanding your business

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.



# 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.

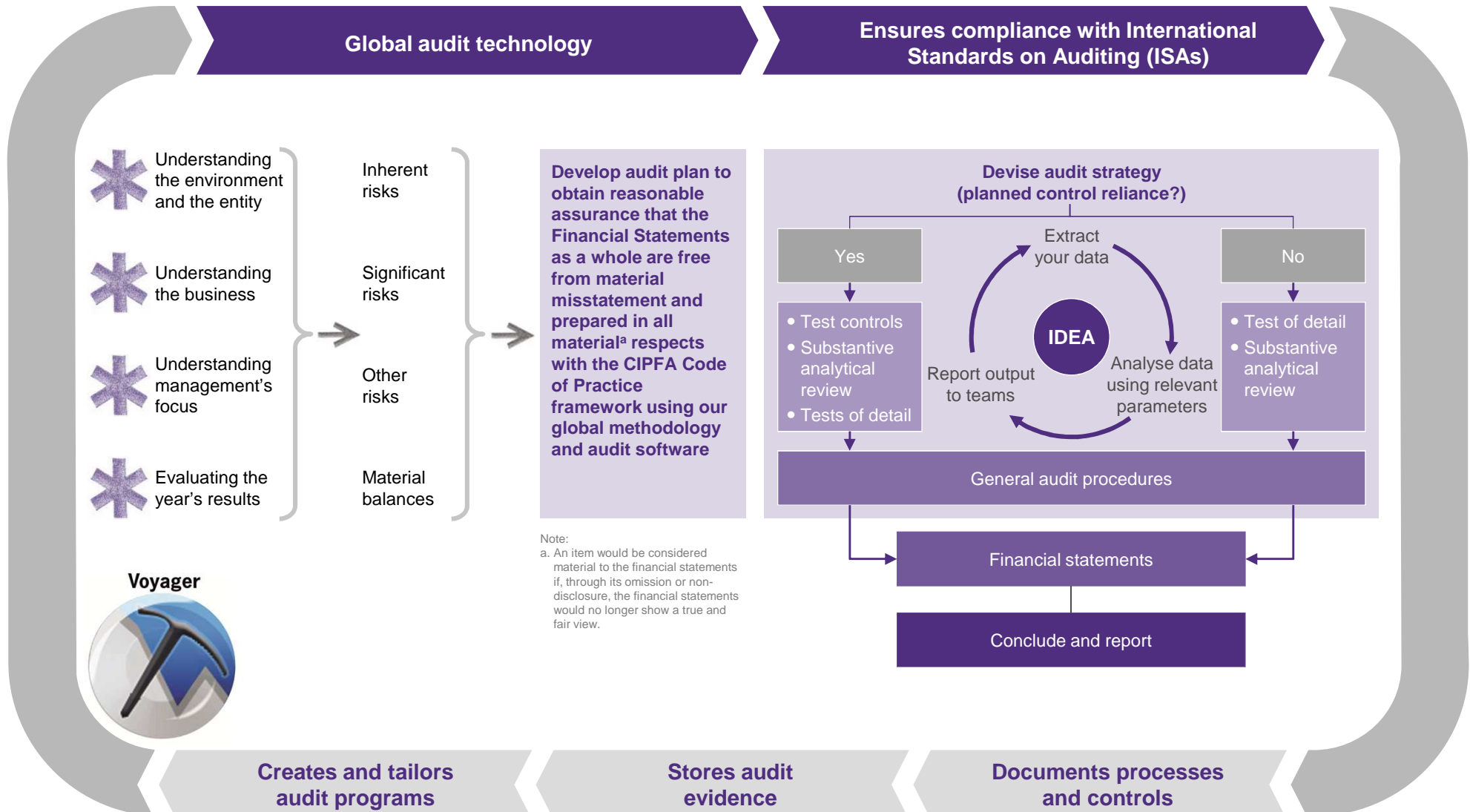
## Developments and other requirements

<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 2013/14 changes to the Local Government pension Scheme (LGPS)</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 including valuation of property, plant and equipment.</li> <li>• the Council has a reasonable approach to accounting for 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> <li>• We will share emerging practice and issues relating to welfare reform and consider how the Council is addressing these changes.</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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# 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.	<p><b>Work planned:</b></p> <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.	<p><b>Work in progress:</b></p> <ul style="list-style-type: none"> <li>Gaining an understanding of management's accounting estimates, judgements and decisions.</li> <li>Testing of journal entries in the first 9 months of the year.</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgements and decisions made by management</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>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2014. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> <li>Attribute testing has been performed on a sample of 50 items covering the first 10 months of the year in order to determine whether or not expenditure is valid, relates to the council and has been fully and correctly recorded within the council's financial systems.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of large and / or unusual items within this population.</li> <li>Completion of attribute testing to cover the remaining part of the year, bringing the total sample size to 60.</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in February 2014. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> </ul>	<ul style="list-style-type: none"> <li>Predictive analytical review of employee remuneration</li> <li>Performance of attribute testing on payroll expenses</li> </ul>
Property, plant and equipment	Revaluation measurements not correct	<ul style="list-style-type: none"> <li>We have written to your valuers to understand the basis on which they have valued your property assets.</li> </ul>	<ul style="list-style-type: none"> <li>Document and walk through controls around processing valuations.</li> <li>Evaluate the qualifications and work of your valuers.</li> <li>Check whether all assets in particular classes have been revalued and ensure the basis of valuation is appropriate.</li> <li>Where assets have not been revalued, review the basis for that decision and ensure the estimation uncertainty is adequately disclosed in the financial statements.</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
Welfare Expenditure	Welfare benefit expenditure improperly computed (this covers council tax local support as well as housing benefits)	<ul style="list-style-type: none"> <li>Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2014. No control deficiencies were identified as a result of this work, and we are satisfied that the system and controls are operating as designed.</li> </ul>	<ul style="list-style-type: none"> <li>Testing of a sample of housing benefit claims as part of the certification of the 2013/14 benefit subsidy claim.</li> <li>Substantive testing of a sample of council tax benefit claims under the local scheme arrangements implemented from 1<sup>st</sup> April 2013.</li> <li>Reconciliation of benefit expenditure to the benefit subsidy claim and assessment of the impact of any significant differences.</li> <li>Review of system parameters for uprating and the benefit software diagnostic tool.</li> <li>Analytical review of year on year variances and comparison to national data.</li> <li>For council tax local support (CTLS), we will:               <ul style="list-style-type: none"> <li>Document and walk through controls around processing CTLS transactions</li> <li>Test a sample of individual claims to council tax records.</li> </ul> </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 will undertake work in the following areas to address the risks identified:

- we will continue to monitor the relevance and responsiveness of the Council's medium term financial plan to the scale of savings required as well as emerging risks to achievement of savings plans and to the level of balances;
- we will review the governance arrangements around partnership working and how effective these new working relationships are in generating savings and more joined-up working;
- we will review how you have explored and implemented plans for greater commercialisation of services, including your risk management and mitigation for such plans;
- we will review the levels of financial skills and training provided to Members responsible for Cabinet and governance roles.
- we will review your arrangements for pooling business rates with Kent County Council, including your evaluation of financial and other risks connected with these arrangements.
- we will review the links between your capital investment plan and your medium term financial plan to ensure that the revenue implications are fully reflected in the latter.

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

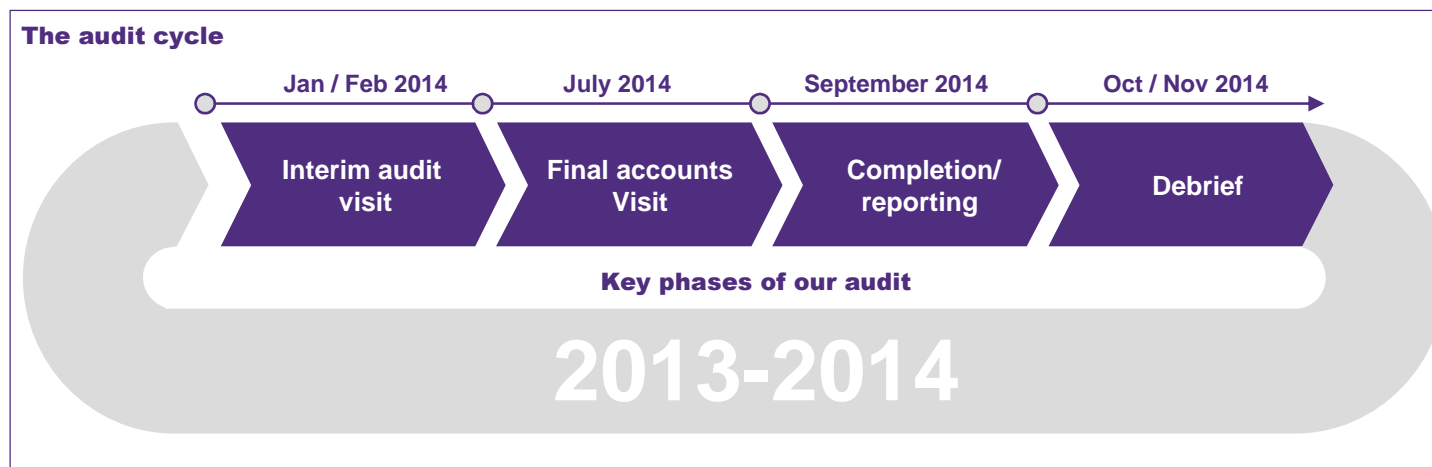
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
<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 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 performed a high level review of the general IT control environment in place over the Council's IT shared service with Swale and Tunbridge Wells councils. This work will be used to inform our overall review of the internal controls system.</p> <p>IT (information technology) controls were observed generally to have been implemented in accordance with our documented understanding.</p>	<p>We identified one deficiency which we considered unlikely to result in material misstatement of your financial statements.</p> <p>The Academy application manager has command line access to the Academy database in order to be able to fix errors under the guidance of Capita. Access is first made to the Windows database server using generic credentials used by a number of support personnel, and no additional authentication is required for command line access to the database other than the credentials used to log into the server.</p> <p>This leads to the following risks to the Council:</p> <ul style="list-style-type: none"> <li>• Unauthorised access and changes to the database</li> <li>• Unintended changes to the database that adversely affect its operation</li> <li>• users are not made accountable for their actions and there is no audit trail of changes to the database.</li> </ul> <p>We have raised a recommendation in the action plan.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<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 and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>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.</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>
<b>Operating expenses</b>	<p>We have tested a sample of 50 invoices in order to determine whether or not expenditure is valid, relates to the Council and has been fully and correctly recorded within the council's financial systems.</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>
<b>Property, plant and equipment</b>	<p>We tested the existence of material fixed assets to gain assurance about the Council's opening balance sheet.</p>	<p>There are no issues to draw to your attention. We will carry out further testing of this balance as part of our year-end audit.</p>

# Key dates



Date	Activity
6 – 10 January 2014	Planning
10 – 14 February 2014	Interim site visit
14 July 2014	Presentation of audit plan to Audit Committee
15 July – 4 August 2014	Year end fieldwork
15 September 2014	Report audit findings to the Audit Committee
By 30 September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	66,400
Grant certification	17,300
<b>Total fees (excluding VAT)</b>	<b>83,700</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

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you.

Ellie Dunnet, who was the in-charge accountant for the audit in 2012/13 and the initial stages of planning for 2013/14, has accepted the post of Chief Accountant at the Council. We have considered the perceived threat to our independence and set out the safeguards we have put in place to manage this:

- All work performed was subject to review by the engagement manager and, on a sample basis, by the engagement lead. Her involvement with the audit ceased when she informed the engagement lead of her interview for the post.
- There is a potential threat of intimidation of junior staff on the audit who have worked with her previously. This is mitigated by selecting staff who have not previously worked with her and review of areas of critical judgement by the engagement manager and engagement lead.
- The current engagement manager and team proposed for the 2013/14 audit did not work on the audit in 2012/13 and there is therefore a low risk of familiarity threat. This is mitigated further by selecting appropriate staff on the audit and review of areas of critical judgement by the engagement manager and engagement lead.

# 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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# Appendices



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# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Consider whether the Academy application administrator should have access to the database; and whether this should be performed by a database administrator with the appropriate skills.	Medium		
2.	Provide each individual that has access to the database with a unique user ID so that actions and changes made to the database are accountable to that specific individual.	Medium		



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