

# The Audit Plan for Swale Borough Council

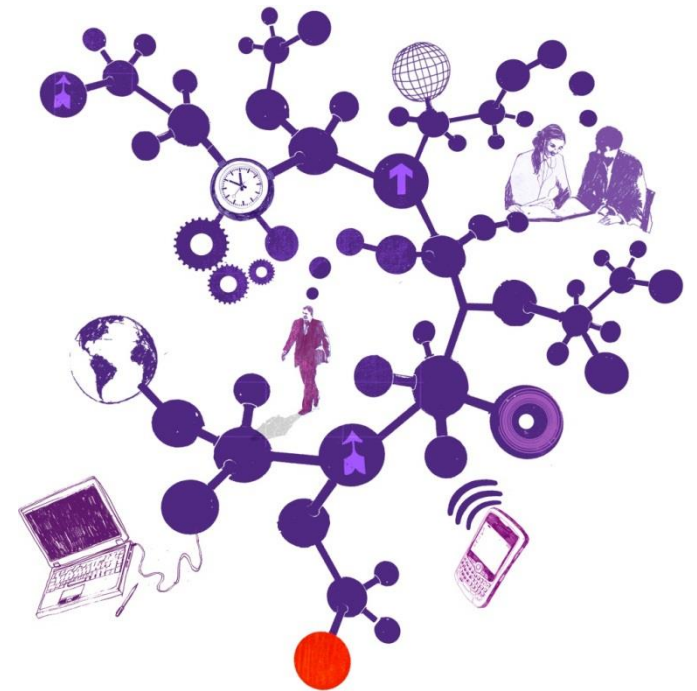
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**Year ended 31 March 2015**

March 2015

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Regeneration

- You have worked closely with the private sector over a number of years to help develop a major regeneration programme for Sittingbourne. Planning proposals have now been submitted. To facilitate the scheme you plan to construct and operate new car parking facilities. Subject to obtaining planning approval work on the project will commence in 2015/16.

### 2. Financial position

- Local authorities continue to face significant financial pressures following reductions in government funding. Under the local government spending settlement authorities are facing an overall reduction in spending power of 1.8% in 2015-16, with an anticipated reduction for Swale of 4.1%. A robust medium-term financial planning framework is needed to address these pressures.

### 3. Delivering efficient and effective services

- In recent years your budget process has been supported by efficiency savings, including from new shared services arrangements, contract savings and internal efficiencies. The medium term financial plan anticipates that further efficiency savings will be needed in future years.

### 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.



## Our response

### We will

- monitor the progress of regeneration plans and consider any issues which relate to our value for money conclusion for 2014/15.

### We will

- review your financial planning framework as part of the work to support our value for money conclusion.

### We will

- consider if you continue to have efficient and effective arrangements for the delivery of services as part of the work to support our value for money conclusion.

### 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.

# 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

### 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
- The Council completes a claim for housing benefit subsidy grant on which audit certification is required

## Our response

### We will

- liaise with the s finance team on relevant issues prior to the accounts being prepared
- ensure that you comply with the requirements of the CIPFA Code of Practice through our work to review the 2014/15 financial statements.

### We will

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

### We will

- review the arrangements 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

- review your performance against the 2014/15 budget
- undertake a wider review of financial resilience issues to support 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

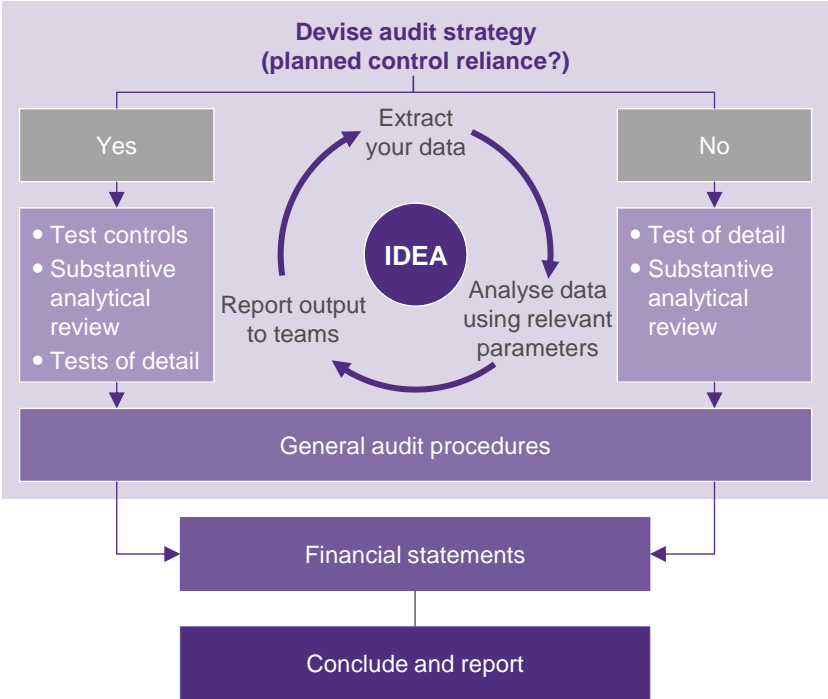
Global audit technology

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 programs

Stores audit evidence

Documents processes and controls

# 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	<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 the Council we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including those at Swale Borough Council, mean that all forms of fraud are seen as unacceptable.</li></ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• testing of journal entries</li><li>• review of accounting estimates, judgments and decisions made by management</li><li>• review of any 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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Identification and walkthrough of system controls</li></ul> <b>Further work planned:</b> <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><li>• Review of yearend reconciliations to ensure completeness of information in the accounts</li></ul>
Employee remuneration	Employee remuneration accruals understated	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Identification and walkthrough of system controls</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of yearend reconciliations to ensure completeness of information in the accounts</li><li>• Trend analysis to assess completeness of payroll information</li></ul>



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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. We will undertake work in the following areas to address the risks identified:

- review your Medium Term Financial Plan and financial strategy as part of our work to assess your arrangements for financial resilience.
- review your performance against the 2014/15 budget, including the delivery of planned savings.

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	Findings and conclusion
<b>Internal audit</b>	<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.</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>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices.</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

# Key dates

## The audit cycle



Date	Activity
January/February 2015	Planning
February/March 2015	Interim site visit
25 March 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
TBA	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2015	Sign financial statements opinion and VFM conclusion

# Fees and independence

## Fees

	£
Council audit	80,985
Grant certification (indicative)	9,790
<b>Total fees (excluding VAT)</b>	<b>90,775</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

### 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 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](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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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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