



The Audit Plan for Copeland Borough Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

March 2014

Jackie Bellard

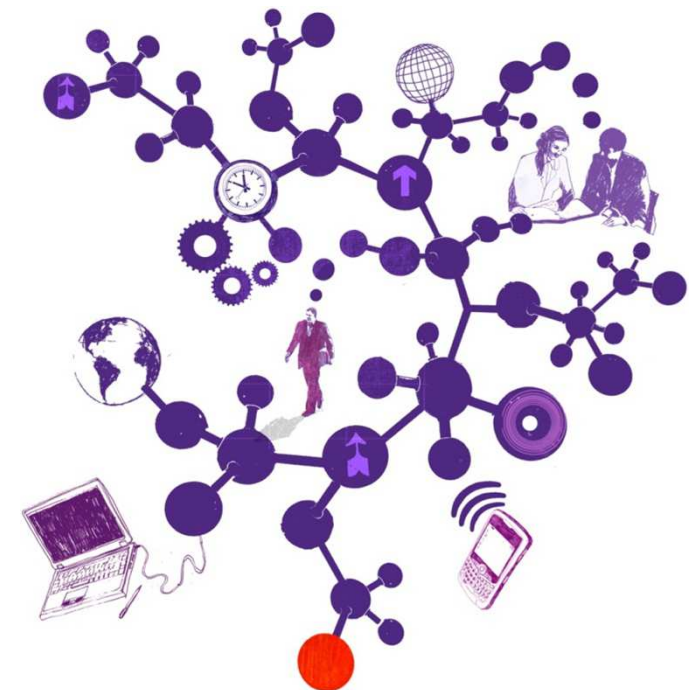
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Understanding your Council

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding of your key challenges and opportunities below.

Challenges/opportunities

1. Impact of the economic downturn and reduced government grants

- The Council has a plan in place to deliver budget savings but now faces a challenge to respond to further funding reductions
- Financial plans have had to be revised to reflect reduced grant income and other assumed reductions in income and increase in cost pressures
- The Council's Medium Term Financial Strategy identifies a financial plan shortfall of £1,648k in 2015/16, and further shortfalls for two years after this



2. Increased cost pressures

- In addition to decreasing government income, the Council faces a number of both recurrent and one-off increases in expenditure
- The increased pension contributions required to address the Pension Fund shortfall present annual cost pressures expected to be in excess of £100,000
- Other pension policy changes such as auto enrolment and the end to contracting out of the state second pension will also increase the cost of providing services



3. Monitoring the changes from National Non-Domestic Rates (NNDR)

- The Council has implemented the business rates retention scheme in 2013/14
- This introduces more volatility to NNDR grant income, as to some extent income is now dependent on collection rates
- There is potential for a very significant business rate appeals provision
- The Council believe this potentially could reduce NNDR income to the lowest 'safety net' level



4. Changes to the Housing Benefits subsidy claim and move to Council Tax Reduction Scheme

- Staff changes may impact on the Council's ability and capacity to produce the subsidy claim
- The Council are operating a Local Support for Council Tax scheme (LSCT)
- This scheme is supported by other bodies funded by Council tax, such as County, Police and Parishes
- There is a cost to these bodies, as the level of government support has reduced



Our response

- We will assess your arrangements for maintaining the Council's financial resilience as part of the Value for Money (VfM) assessment
- We will review your arrangements in place for producing and updating the Medium Term Financial Strategy as part of our VfM work
- We will review the financial statements and carry out substantive testing of income and expenditure items to gain assurance over the reported financial position

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- We will continue to meet with officers and discuss the impact on finances and accounting that the business rates changes have had
- We will review the Council's arrangements for obtaining the information it needs to assess the level of its business rate appeals
- We will test the calculation and methodology of the business rates appeals provision included in the financial statements

- We will continue to discuss with officers the impact of staff changes on delivery of the audit of the Housing Benefits subsidy claim
- As the Council considers the future of the LSCT and assesses the costs of continuing the scheme, we will discuss progress with staff and consider the impact on our VfM conclusion where applicable
- We will review the accounting for the change from Council Tax Benefit to LSCT as presented in the 2013/14 financial statements

Developments relevant to your organisation 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 Audit Commission Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Clarification of Code requirements around PPE valuations may have a significant impact on Councils
- Changes to NNDR accounting and provisions for business rate appeals.

2. Legislation

- The Local Government Finance settlement for 2014/15 has been announced, with further funding reductions for Copeland BC.
- The Welfare Reform Act 2012 will impact the Council.

3. Corporate governance

- The Accountable Officer will prepare and sign an Annual Governance Statement (AGS)
- An explanatory foreword to the financial statements will be produced

4. Pensions

- The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)
- New pension accounting requirements are in force for the first time in 2013/14

5. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans is challenging, and this will increase in future years.

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 a Housing Benefit grant claim, and are required to provide an audit certificate on this claim.

Our response

- We will ensure that the Council complies with the requirements of the CIPFA Code of Practice and provisions on business rate appeals through discussions with management and our substantive testing
- We will review the Council's approach to PPE valuations and their assessment of carrying values of assets
- We will review the Council's new asset register and consider the impact for our audit approach.

- 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 consider the impact on our audit from the changes in the Welfare Reform Act.

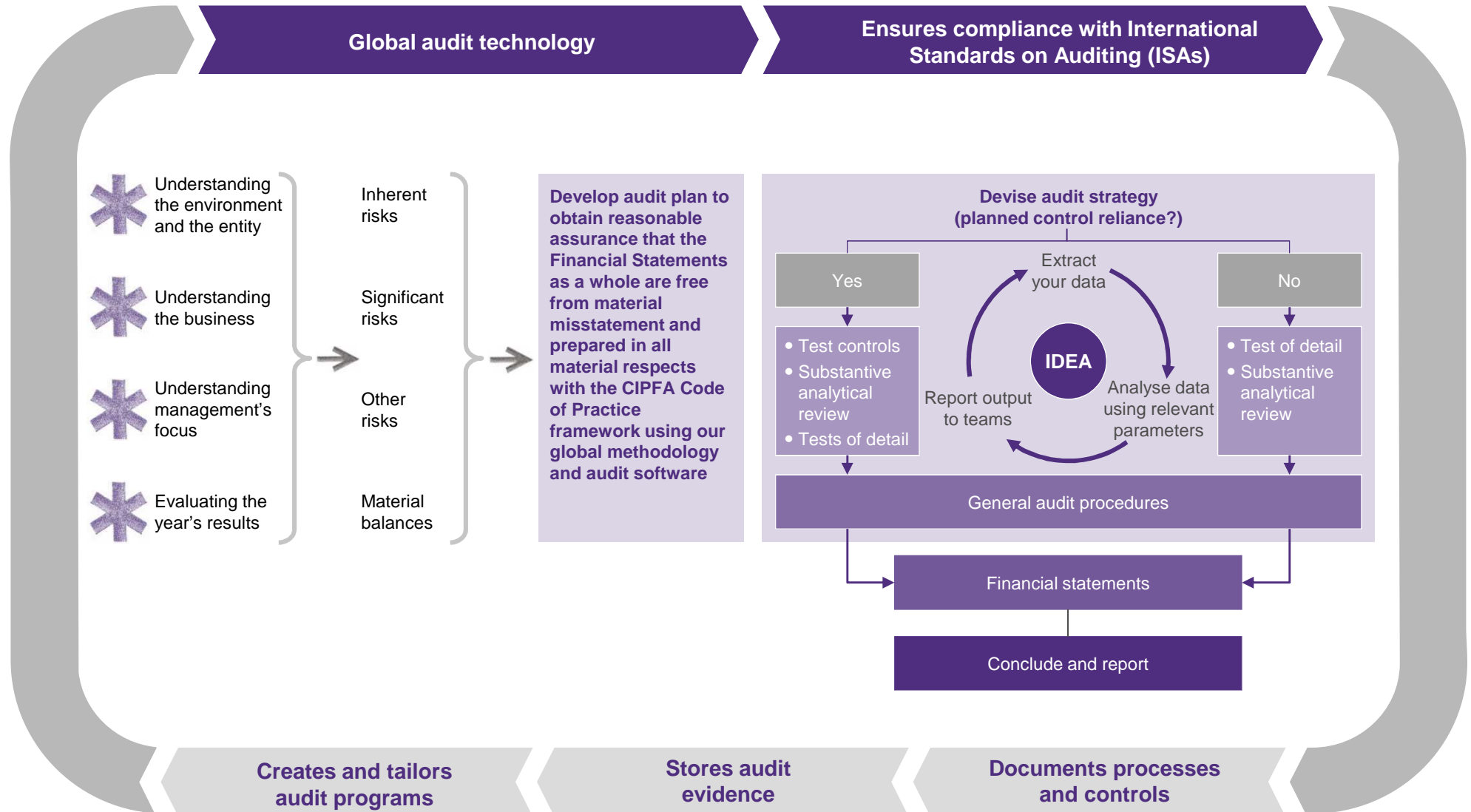
- We will review the arrangements the Council has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management.
- We will also consider the Council's work on assessing the future impact of the pension scheme changes.
- We will review the new accounting disclosures for pensions against the requirements of the CIPFA Code.

- We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plans.
- 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 grant claims in accordance with Audit Commission requirements.

Our audit approach



Significant risks identified

The International Standards on Auditing outline two presumed significant risks of material misstatement which are applicable to all audits. These are listed below, and relate to the financial statements as a whole. The Audit Team have also identified an additional significant risk, also set out in the table below.

"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).

Significant risk	Description	Substantive audit procedures
The revenue cycle may include fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none"> • Performance of substantive testing on material revenue streams • Substantive sample testing of debtors and income accruals • Review of revenue recognition policies • Review of unusual significant transactions • Testing of journal entries
Management over-ride of internal controls may result in material mis-statement	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions • Discussions with internal audit
Property, Plant & Equipment - revaluation measurements may not be correct, or may not be compliant with the CIPFA Code	Some Local Authorities have indicated that they will find it difficult to comply with the clarified CIPFA Code requirement to revalue all assets in a class within one year. Given the implementation of a new asset register and the issues we previously reported on PPE, there is a risk of material mis-statement in PPE, and potential non-compliance with the CIPFA Code.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Early discussion with the Council about the valuation process for 2013/14 and the effect of the amended wording in the CIPFA Code of Practice on PPE revaluation • Identification of controls operating for the revaluation of PPE <p>Further work planned:</p> <ul style="list-style-type: none"> • Discussions with the in-house valuer over the valuation methods and frequencies • Substantive testing for a sample of individual assets • Review of the new asset register and controls around the transfer of data from the old to the new system

Other risks identified

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. These are in addition to the significant risks set out on the previous page.

"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).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors and accruals may be misstated or recorded in the incorrect period.	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place to pay and record expenditure We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of substantive testing on a sample of expenditure items Substantive testing of a sample of year end creditors and accruals Testing of both expenditure transactions and a sample of creditors and accruals to ensure 'cut-off' is correct (i.e. that they are recorded in the right period).
Employee remuneration	Employee remuneration accruals may be understated	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place over payroll We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of substantive testing on a sample of payroll transactions and deductions Substantive testing of a sample of year end payroll accruals Analytical procedures to identify any discrepancies in monthly payrolls and consider whether the payroll expenditure is in line with our expectations based on substantiating evidence Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements
Welfare Expenditure	Welfare benefits may be calculated incorrectly	<ul style="list-style-type: none"> We have begun our review of the systems and controls that the Council have in place to calculate, pay and record benefit expenditure We have 'walked through' a transaction to demonstrate that appropriate controls are in place and designed effectively From this work, we have not identified any control weaknesses or errors 	<ul style="list-style-type: none"> Performance of detailed HB COUNT testing of a sample of housing benefit payments Performance of other substantive benefits tests as directed by the Audit Commission / DWP Substantive testing of payments for Council Tax Reduction scheme Testing of the reconciliation between the benefits system and the amounts recorded in the financial statements

Value for money

Value for money

The Audit Commission Code of Audit Practice 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

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.

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources



We will undertake a risk assessment to identify areas of risk to our VfM conclusion



The process that we undertake in order to give the VfM Conclusion is to:

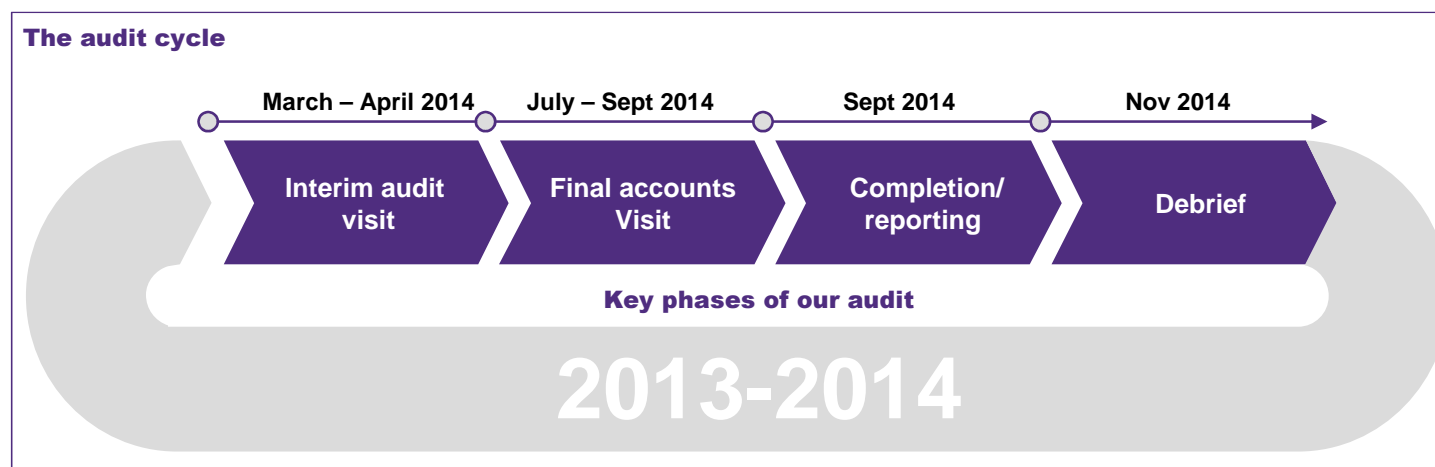
- update our knowledge using existing available information and knowledge;
- carry out a document review of key documentation from the Council's schedule of meetings;
- discuss with key officers and request further information;
- engage with those charged with governance during the year;
- produce a summarised follow up on financial resilience.

Results of interim audit work

The findings of our interim audit work so far, 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 reviewed internal audit's overall arrangements and compliance with the new Public Sector Internal Audit Standards. Our separate report on the shared internal audit service identified some areas for improvement and an action plan was agreed. Our work has not identified any further issues which we wish to bring to the Council's attention.</p> <p>We also considered internal audit's reports on the Council's key financial systems to date. This feeds into our assessment of the general control environment. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that Internal Audit continues to provide an independent and satisfactory service to the Council and that their 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, including Employee Remuneration, Operating Expenses and Housing Benefit and Council Tax Discount. A walkthrough test of controls relating to Property, Plant and Equipment will be carried out after year end.</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>From our work to date, controls appear to be effectively designed and in place as documented.</p> <p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist 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 to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to materially impact on the Council's financial statements.</p> <p>We made some recommendations to management about enhancing password controls, super-user accounts and reviewing general user accounts.</p>
Early substantive testing	<p>We are in the process of undertaking early substantive testing on employee remuneration costs ,operating expenditure transactions and certain classes of income transaction for the period April 2013 to February 2014.</p>	<p>We have not identified any issues to date. Completing this audit work in advance of the year end will reduce the workload for Council staff and the audit team after the year end.</p> <p>This work is on-going, and will be reported as part of our overall findings in our ISA 260 Audit Findings Report.</p>

Key dates



Date	Activity
On-going	Planning
March – April 2014	Interim site visit for walkthroughs, early testing and discussions with staff
15 April 2014	Presentation of audit plan to the Audit and Governance Committee
July – September 2014	Year end fieldwork
Early September 2014	Audit findings clearance meeting with Head of Corporate Resources
September 2014	Report audit findings to those charged with governance
By 30 September 2014	Sign financial statements opinion
By 30 September 2014	Certify the whole of government accounts consolidation pack

Fees and independence

Fees

	£
Council audit	70,656
Grant certification	23,100
Total fees (excluding VAT)	93,756

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

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.

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 any non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to any 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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