

The Audit Plan for Pendle Borough Council

Year ended 31 March 2015

June 2015

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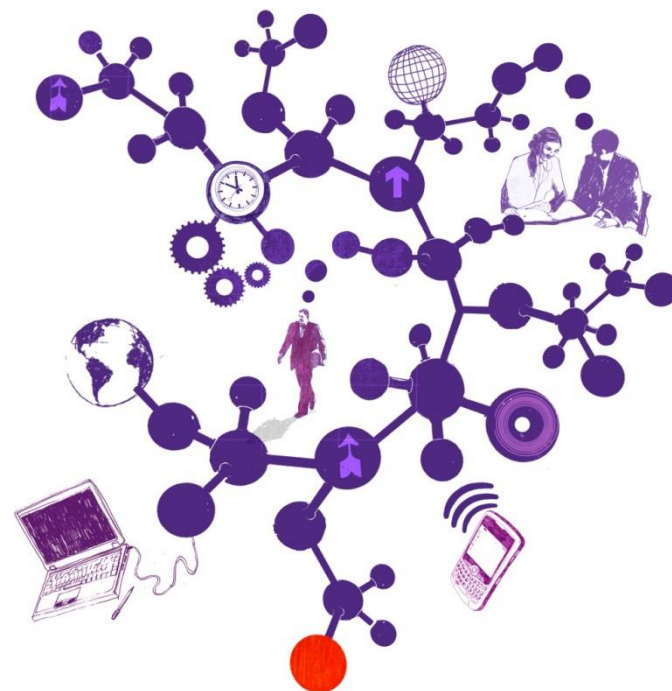
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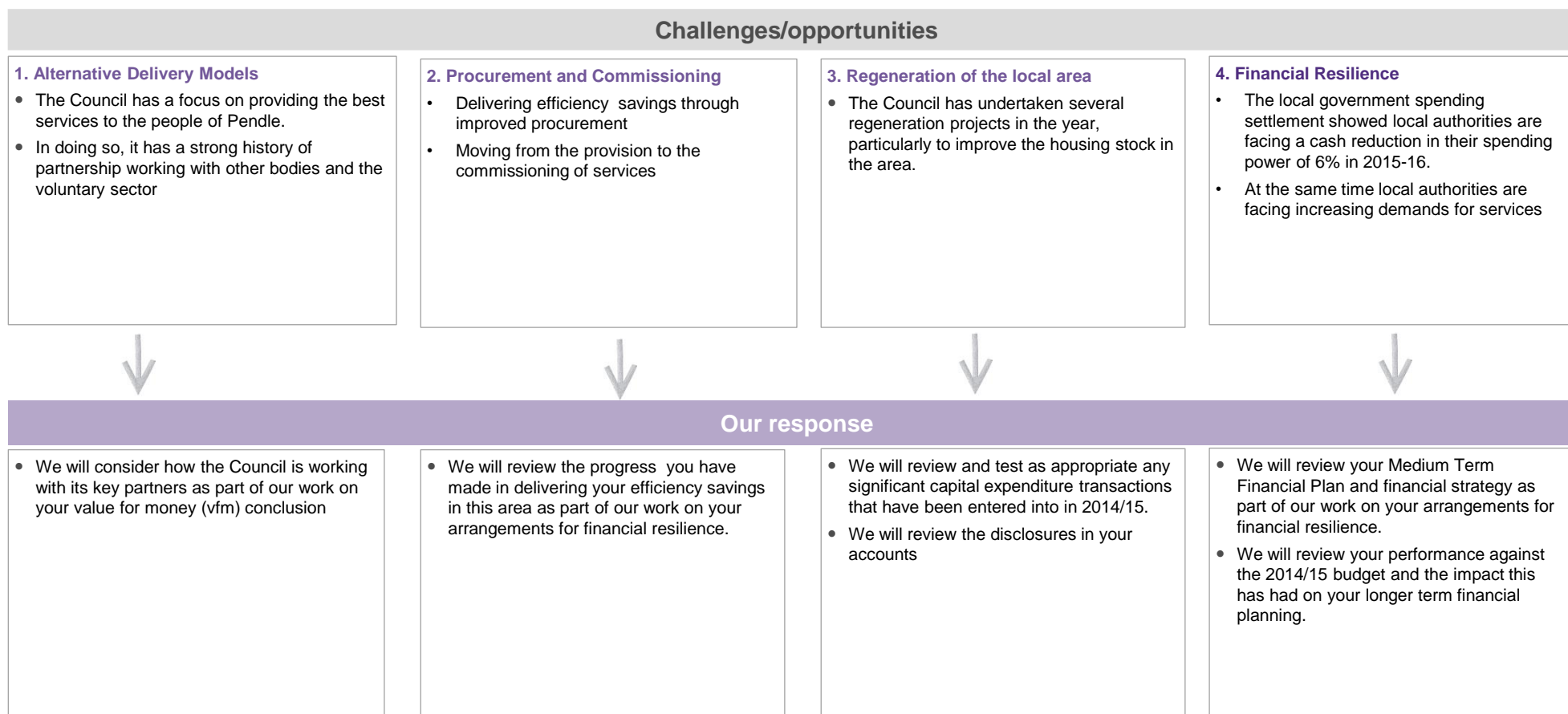
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1. Understanding your business

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.

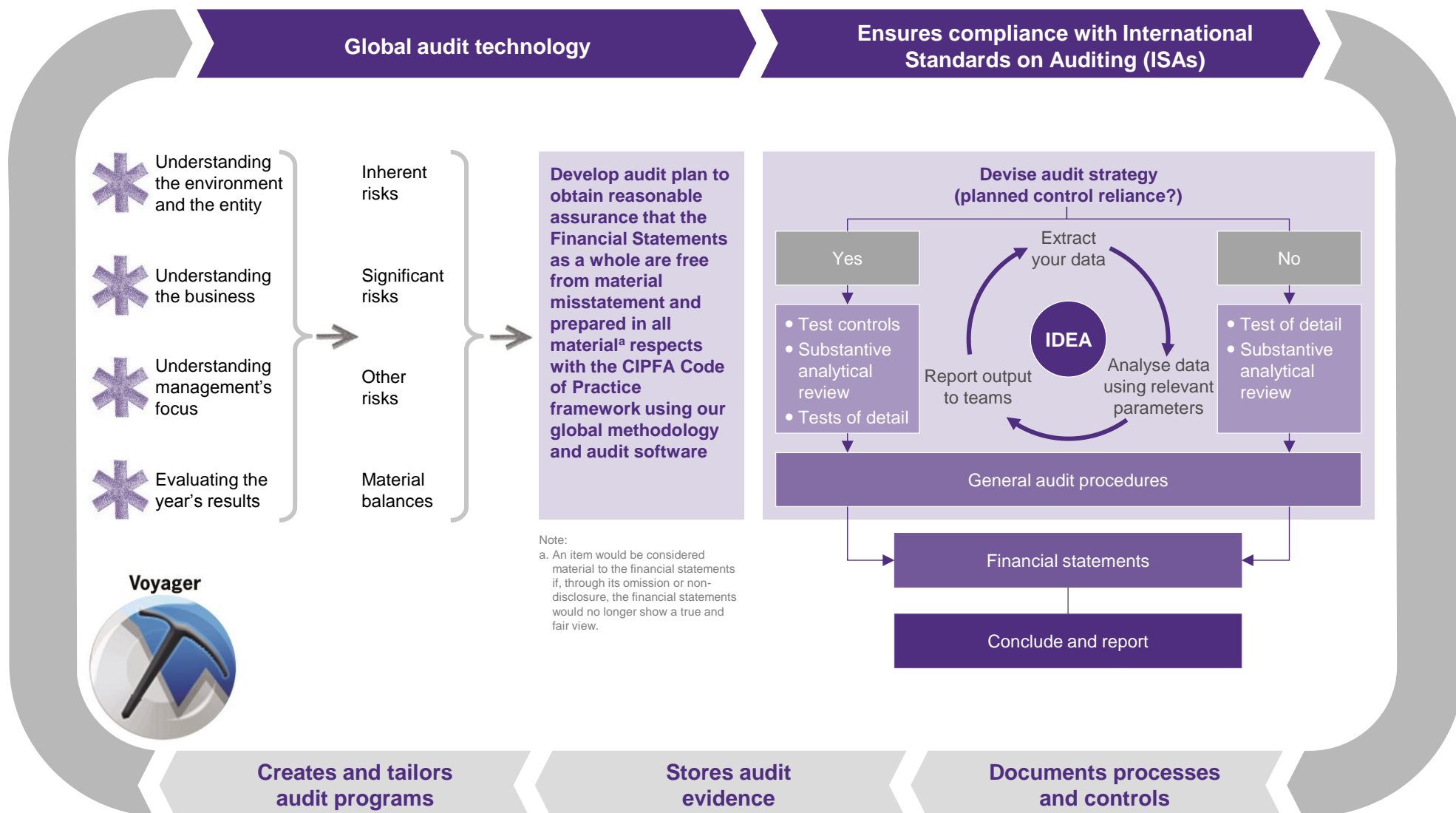


2. Developments relevant to your business and the audit

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 <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Adoption of new group accounting standards (IFRS 10,11 and 12) 	2. Legislation <ul style="list-style-type: none"> Local Government Finance settlement 	3. Corporate governance <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	4. Better Care Fund <ul style="list-style-type: none"> Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	5. Financial Pressures <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	6. Other requirements <ul style="list-style-type: none"> 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					
<p>We will ensure that</p> <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<p>We will review</p> <ul style="list-style-type: none"> the arrangements the Council has in place for the production of the AGS both the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> We will consider the impact of the BCF on you. 	<p>We will</p> <ul style="list-style-type: none"> review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan undertake a review of Financial Resilience as part of our VfM conclusion 	<p>We will</p> <ul style="list-style-type: none"> carry out work on the WGA pack in accordance with requirements 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.

3. Our audit approach



4. 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 Pendle 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 Pendle Borough Council, mean that all forms of fraud are seen as unacceptable.
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>Work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management, including your assessment of whether group accounts are required.• Testing of journal entries• Review of unusual significant transactions

5. 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 (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls Further work planned: <ul style="list-style-type: none">• Detailed review and testing of year end accruals and creditor balances.• Testing of new year payments to confirm that they have been accounted for in the correct year.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Work completed to date: <ul style="list-style-type: none">• Documentation of processes and controls• Evaluation and walkthrough of controls Further work planned: <ul style="list-style-type: none">• We will undertake a trend analysis of spend on pay by month and review any unusual movements• Reconciliation of the payments from the payroll system to the general ledger and the statement of accounts

5. Other risks identified (cont'd)

Other material balances and transactions

Under the International Standards for Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure". All other material balances will therefore be audited, however, the procedures will not be as extensive as the procedures adopted for "Significant" and "Other" risks. These include:

- Property Plant and Equipment
- Investment Property
- Investments
- Long Term and Short term Debtors
- Cash and Cash Equivalents
- Borrowing and other liabilities
- Welfare benefits
- Council Tax
- Business Rates
- Grants Revenue
- Other Income
- Related Party Transactions
- Provisions

Other Audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance statement are appropriate.
- We will carry out work on the Whole of Government Accounts 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.

6. 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 of the progress the Council has made in delivering savings plans
- consider the adequacy of your medium term financial planning
- review of the effectiveness of your key services.

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.

7. Results of interim audit work

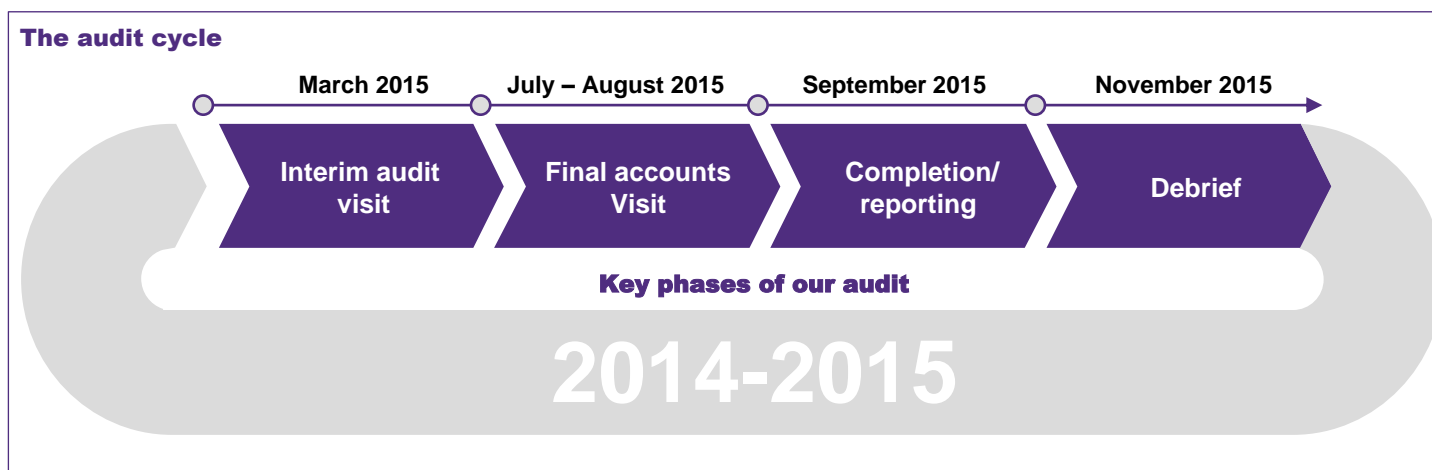
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We will update our review to ensure it covers the full financial year.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council.</p> <p>We have not identified any issues which we wish to bring to your attention.</p> <p>Our review of internal audit work has not identified any control weaknesses which impact on our audit approach or audit responsibilities.</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>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> <p>Our work has not identified any issues which we wish to bring to your attention</p>
Entity level controls	<p>We have updated our 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>

7. Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>Our team 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 adversely impact on the Council's financial statements.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We will update our understanding of the journal controls in place for the full year and undertake testing on journal entries as appropriate.</p>	<p>There are no matters arising to bring to your attention</p>
Early substantive testing	<p>We have undertaken early testing on payroll and operating expenditure incurred by the Council.</p>	<p>There are no matters arising from the work completed to date. We will ensure our testing covers the full year as part of our post statements visit.</p>

8. Key dates



Date	Activity
December – January 2015	Planning
March – April 2015	Interim site visit
July 2015	Presentation of audit plan to Audit Committee
July – August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with the finance team
September 2015	Report audit findings to those charged with governance – Audit and Governance Committee
September 2015	Sign financial statements opinion

9. Fees and independence

Fees

	£
Council audit	54,173
Grant certification	13,840
Total fees (excluding VAT)	68,013

Fees for other services

Service	Fees £
None	Nil

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, are shown under 'Fees for other services.'

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.

10. 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 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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