



The Audit Plan for Exeter City Council

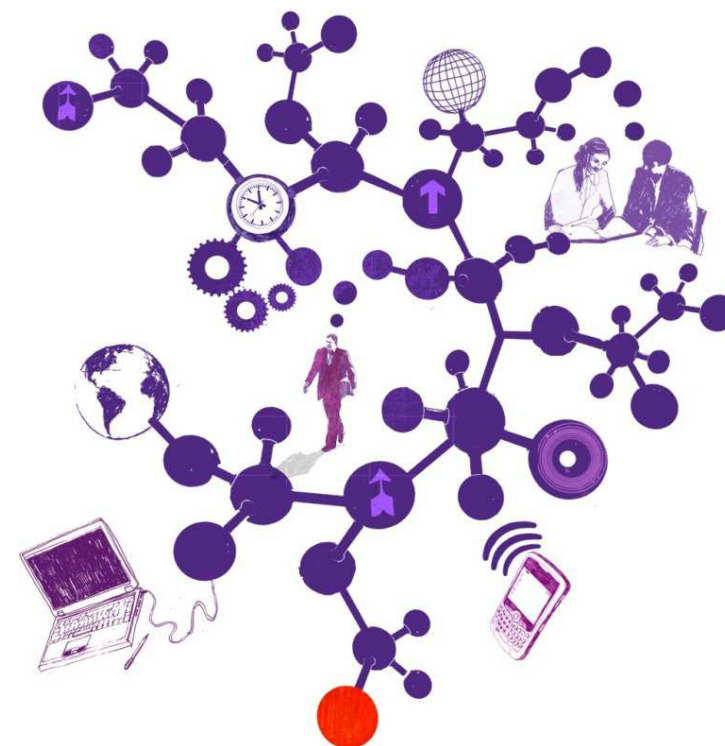
Year ended 31 March 2015

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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 you are facing. 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. We set out a summary of our understanding below.

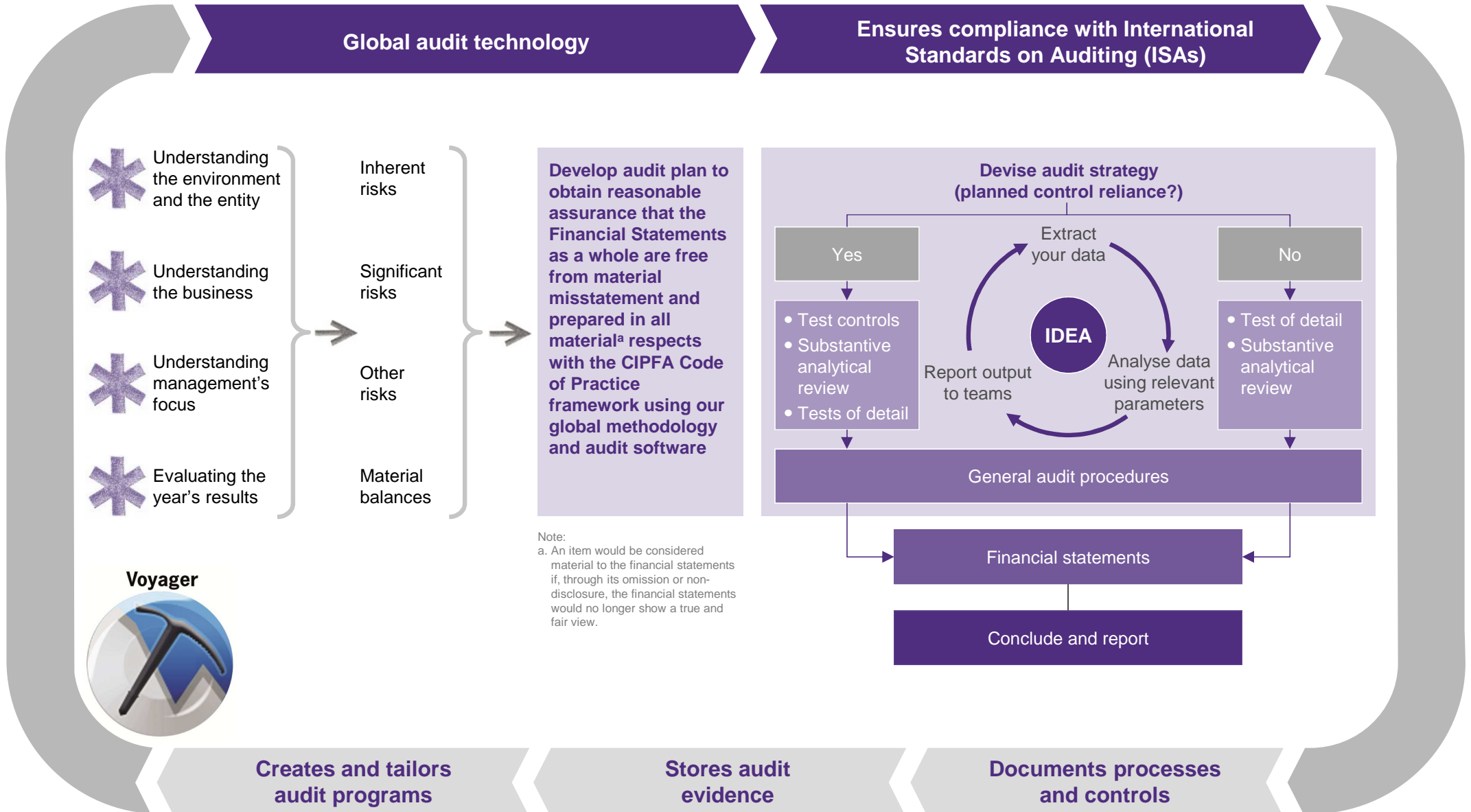
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Adoption of new group accounting standards (IFRS 10,11 and 12). 	<p>2. Accounting for Transport Infrastructure Assets</p> <ul style="list-style-type: none"> • With effect from 2016/17 local authorities will be required to reflect transport infrastructure assets on their balance sheets. 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword. 	<p>4. LG Finance Settlement</p> <ul style="list-style-type: none"> • The local government spending settlement showed local authorities are facing a reduction in their spending power in 2015-16. • At the same time local authorities are facing increasing demands for services. 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans. 	<p>6. Other requirements</p> <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
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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. We will pay particular attention to Strata Service Solutions Ltd and the Exeter Canal and Quay Trust. 	<ul style="list-style-type: none"> • We will review the progress the Council has made in this area. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience. 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan. 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify the pooled capital receipts return and the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company took over the Audit Commission's responsibilities for grant certification from 1 April 2015.
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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	<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 Exeter City 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 Exeter City Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Initial testing of journal entries from April 2014 to January 2015 • Initial review of unusual significant transactions from April 2014 to January 2015. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for February and March 2015 and completion of interim work • Review of unusual significant transactions entries for February and March 2015 and completion of interim work.

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).	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transactions • Substantively tested a sample of operating expenses from April 2014 to January 2015. <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of material expenditure streams for the remainder of the 2014-15 financial year • Substantive testing of significant creditor balances • Review of creditor/liability balances for unusual amounts • Review of after date payments to ensure all liabilities identified.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of system documentation and walkthrough of transactions • Substantively tested a sample of remuneration transactions from April 2014 to January 2015. <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of a sample of remuneration transactions for the remainder of the 2014-15 financial year. • Predictive analytical review.

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Comments	Planned audit approach
Exeter Canal and Quay Trust	To be determined	To be determined	Following the adoption of new group accounting standards (see slide 4) the Council is reviewing the accounting treatment of the Exeter Canal and Quay Trust. This will determine whether group accounts are required for 2014/15.	To be determined.
Exeter Business Centre Limited	No	Analytical	This component is not considered to be material.	Desktop review performed by Grant Thornton.
Exeter Science Park Limited	To be determined	To be determined	The Council is reviewing whether Exeter Science Park Limited is material.	To be determined.
Strata Service Solutions Limited	No	Analytical	We have worked with the Council to help it determine the accounting status of Strata Service Solutions Limited. We agree with the Council's assessment that this should be accounted for as a joint operation.	Full scope UK statutory audit performed by non GT member firm (Francis Clark).

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 your medium term financial planning
- Assessment of your future savings plans and how these impact on the Council's medium term financial plans; and
- Review the Council's performance against its 2014/15 budget, including consideration of performance against its savings plans.

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

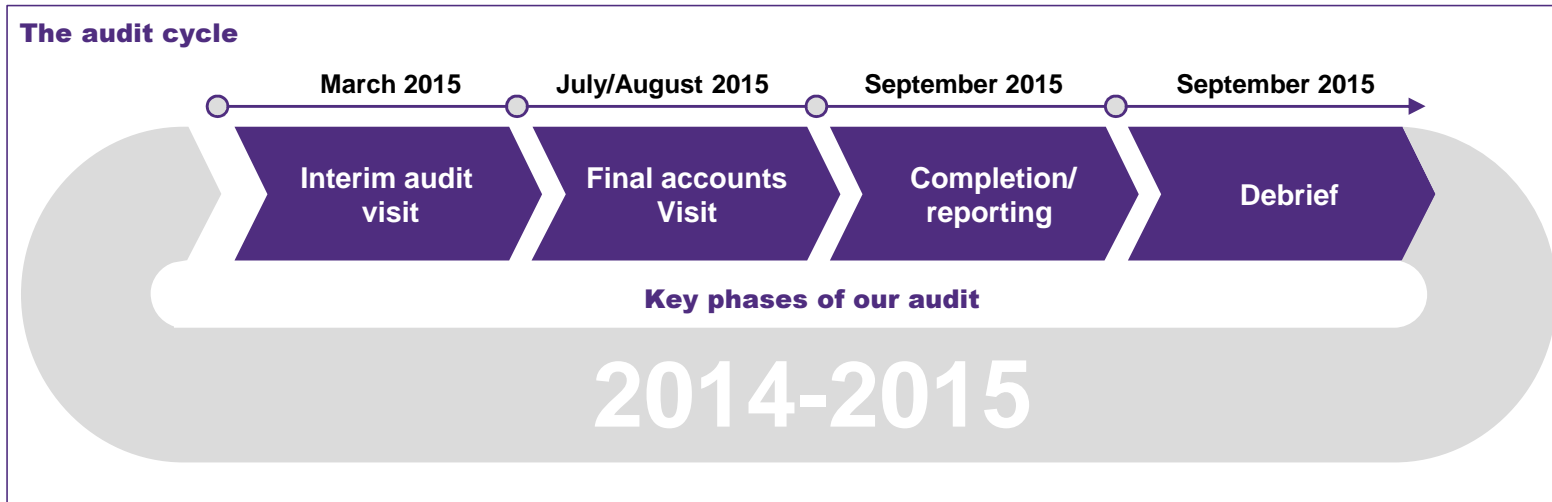
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	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 to date has not identified any weaknesses in the Council's key financial systems which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in the following areas:</p> <p>Operating Expenses; Employee remuneration and Welfare Expenditure. 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>
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	Our IT auditor is currently working on a review of the Council's IT controls. We will report our findings to the Council once this work is complete.	To date, there are no issues we need to report to the Audit and Governance Committee or reflect in our audit strategy.
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>As previously reported a material weakness has again been noted as there is no authorisation process for journals prior to their posting.</p>	<p>A material weakness has again been identified as there is no authorisation process for journals prior to posting.</p> <p>Further testing of journals will be undertaken as part of the final accounts audit. This will include examination of the remaining months of the financial year and year end journal processing.</p>
Early substantive testing	Some early substantive testing has been carried out on operating expenditure, other revenues and payroll transactions in months one to nine, and some initial trend analysis has been undertaken.	No issues have been identified with the testing that has been completed to date. Further testing will need to be undertaken to cover the remainder of the financial year.

Key dates



Date	Activity
January/February 2015	Planning
March 2015	Interim site visit
June 2015	Presentation of audit plan to Audit and Governance Committee
July/August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Assistant Director, Finance
September 2015	Report audit findings to those charged with governance
September 2015	Sign financial statements opinion
October 2015	Annual Audit Letter

Fees and independence

Fees

	£
Council audit	77,183
Grant certification	10,890
Total fees (excluding VAT)	88,073

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 covers pooled capital receipts and 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

Service	Fees £
We have invoiced the following amounts in 2014/15:	
Trade waste claim	£6,667
VAT advice	£1,800
	£8,447

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 Report
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		✓

Appendices

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	The Council should introduce a sample-based approach to journal review and authorisation covering all journals.	Medium	As an alternative to introducing a sample based approach, our Systems Accountant has established that the Efinancials system has the functionality for journal authorisation to be introduced as a control and this is now subject to testing. We are currently seeking advice from the software supplier regarding whether the journal authorisation controls can be introduced for specific journal types, rather than applied to all journal types (e.g. interface journals). If this is not possible, we may consider reverting back to the recommended sample based approach.	31 July 2015 Dave Hodgson Assistant Director, Finance



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