



The Audit Plan for Herefordshire Council

Year ended 31 March 2014

February 2014

Phil Jones

Director

T 0121 232 5232

E phil.w.jones@uk.gt.com

Terry Tobin

Senior Manager

T 0121 232 5276

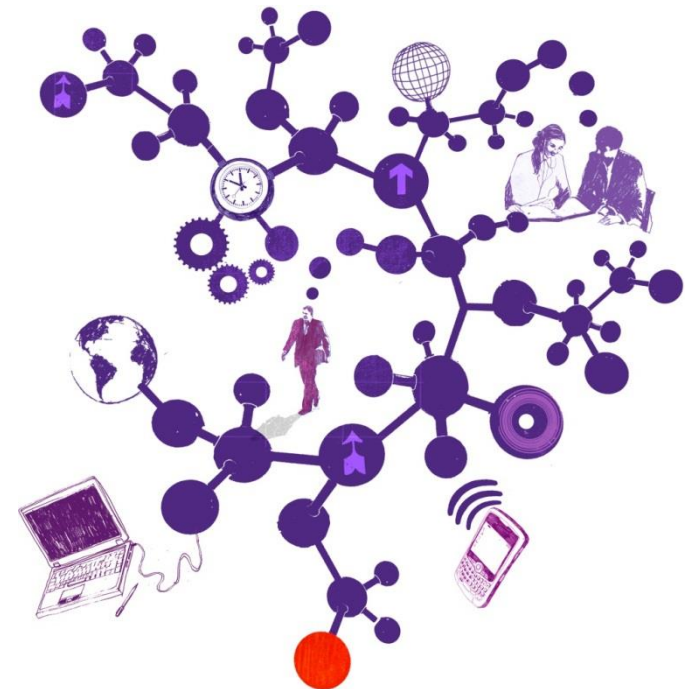
E terry.p.tobin@uk.gt.com

Sarah Good

Executive

T 0121 232 5334

E sarah.l.good@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.

Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Value for Money
9. Logistics and our team
10. Fees and independence
11. Communication of audit matters with those charged with governance

Appendices

- A. Action plan

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.

Challenges/opportunities

1. Medium Term Financial Plan & Financial Pressures

- The Council is operating in an era of significant uncertainty about the financial position for 2013/14 and beyond. The Council will need to save £33m between 2014/15 and 2016/17. Savings proposals have been identified to meet this gap, including £15.4m in 2014/15

2. Adult Social Care

- This area is presenting the Council with a very significant financial challenge. Adult Social Care faces significant future pressures due to increased life expectancy and future demand due to an ageing population

3. Safeguarding Children

- Significant changes are planned to be made to address issues raised by Ofsted around arrangements for the protection of children.

4. Waste Disposal

- The Council is, in conjunction with its partner Worcestershire County Council, seeking to vary the existing waste disposal contract to provide a waste from energy plant. This has attracted significant media and public attention.

5. Better Care Fund

The Better Care Fund (formerly the integrated transformation fund) is a single pooled budget for health and social care services to work more closely together in local areas. Authorities need to plan with their partners for access to the fund by submitting plans in early 2014.

Our response

- We will undertake a review of the financial resilience as part of our VFM conclusion.
- We will review the Council's achievement of savings plans.
- We will review the Council's use of its reserves.

- Through discussions with key officers and document review, we will monitor progress in this area as part of our VFM work.

- Through discussions with key officers and document review, we will monitor progress in this area as part of our VFM work.

- We will continue our dialogue with offices over this issue and respond appropriately to correspondence from members of the public. We will also review the decisions made and consider their impact on the Value for Money conclusion.

We will meet with senior management and members on a regular basis to discuss their response to the opportunities and challenges facing the Council.

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.

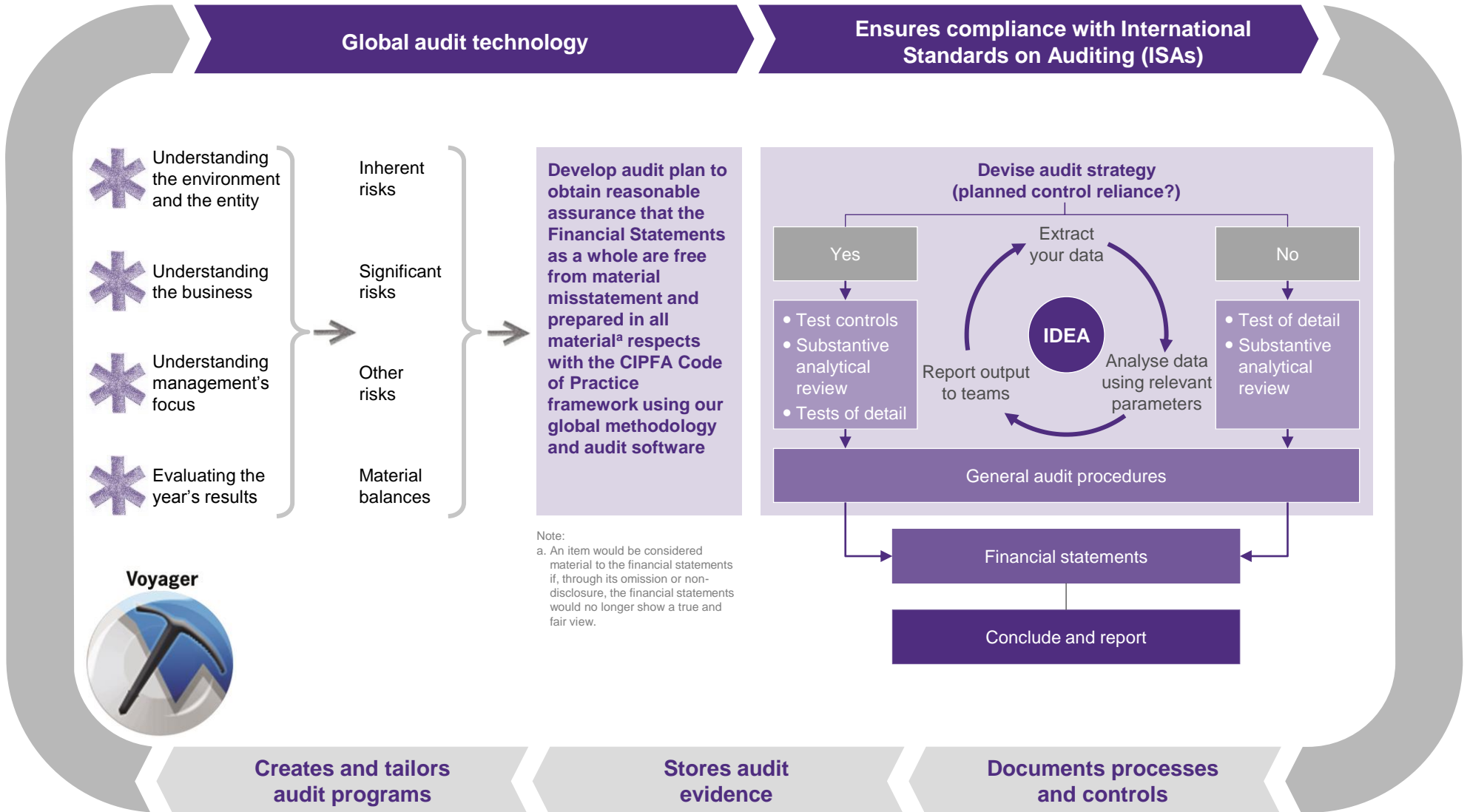
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<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 and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance 	<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. 	<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 how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
---	---	--	---	--	---

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.	We will: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing of material revenue streams
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.	We will: <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

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"> We have documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. 	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> the completeness of the subsidiary system interfaces and control account reconciliations review of monthly trend analysis of payments cut off testing of purchase orders and goods received notes(both before and after year end) <p>Testing will also cover a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. 	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements sample of payments in made in April & May to ensure payroll expenditure is recorded in the correct year. review of monthly trend analysis of total payroll <p>Testing will also cover a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>

Other risks identified

Other reasonably possible risks	Description	Work completed to date	Further work planned
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. 	We will carry out testing in accordance with the methodology required to certify the housing benefit subsidy claim.
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. 	We will carry out testing on a sample of PPE transactions covering the period 1/4/13 to 31/3/14.
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. 	<p>We will review the qualifications, term of reference and the assumptions and methods used by the Valuer, in their work carried out as an expert for the Council.</p> <p>We will review valuation reports to support the accounting entries.</p>

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 the Council's financial resilience, as reflected in the medium term financial strategy and the savings factored into the annual budgets.
- Follow up on the actions that have been undertaken to address the Ofsted report
- To review the arrangements the Council has put in place to ensure VfM in relation to the proposed variation to the waste contract.
- We will monitor the Council's progress in planning for the Better Care Fund.

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

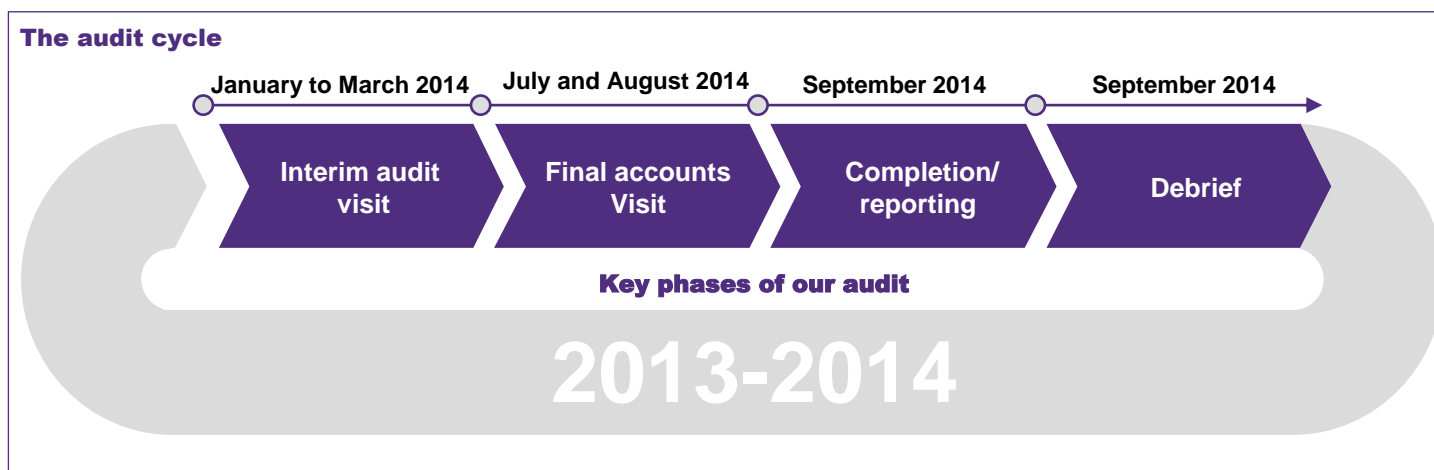
We will report the results of our interim work to the Audit and Governance Committee. The work to be carried out is detailed in the table below. Should the outcome of our interim work impact upon our overall audit plan and strategy, we will report any changes back to those charged with governance

	Work to be performed	Outcome of the work to be performed
Internal audit	<p>We review internal audit's overall arrangements in accordance with auditing standards.</p> <p>We also review internal audit's work on the Council's key financial systems to date.</p>	<p>We will conclude whether the internal audit service provides 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 will identify whether there are any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We complete 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 determines whether internal controls have been implemented in accordance with our documented understanding.</p>	<p>We will conclude whether our work has identified any weaknesses which impact our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist performs a high level review of the general IT control environment, as part of the overall review of the internal controls system. We also perform a follow up of the issues that were raised last year.</p>	<p>We will conclude whether our work identifies any material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Interim audit work continued

	Work to be performed	Outcome of the work to be performed
Journal entry controls	We review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	The work will identify whether there any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.
Early substantive testing	Where practical, we will complete testing on initial samples of employee remuneration, operating expenses and income.	The work will inform our approach to the audit of the Council's accounts and contribute to the assurance for material items.
Value for Money Conclusion	We will carry out an initial review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resource	The work will inform our conclusion on the arrangements to secure value for money.
Other work to be performed	We will follow up the Council's progress in implementing the recommendations made our Audit Findings Report for 2012/13.	The work will inform our approach to the audit of the Council's accounts including our conclusion on the arrangements to secure value for money.

Key dates



Date	Activity
January 2014	Planning
January to March 2014	Interim site visit
March 2014	Presentation of audit plan to Audit and Governance Committee
July and August 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with the Chief Financial Officer
September 2014	Report audit findings to those charged with governance Audit and Governance Committee
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	£164,803
Grant certification	£8,400
Total fees (excluding VAT)	£173,203

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 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		✓



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk