

The Audit Plan for Cheltenham 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.

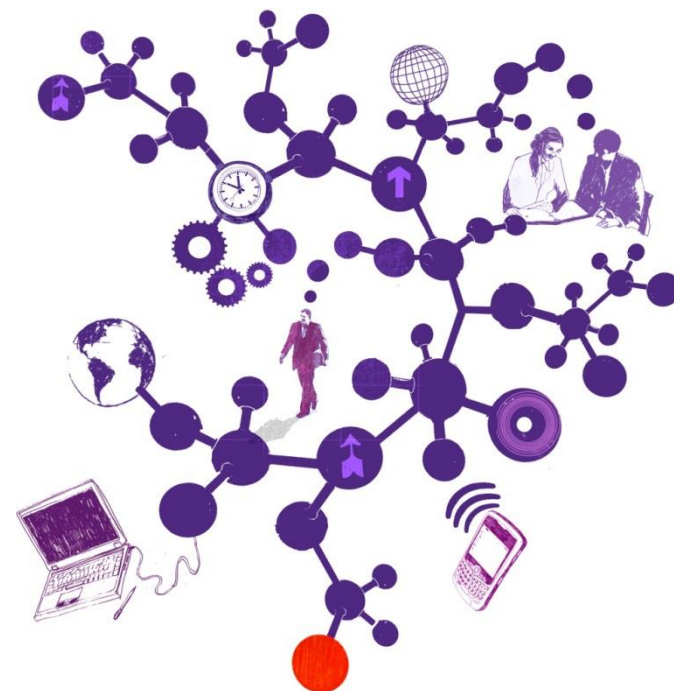
Year ended 31 March 2014

10 March 2014

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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 the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial pressures

- The Council's financial position is challenging for delivering services within reduced budgets
- The impact of the localisation of Council Tax, NNDR pooling and other changes introduced in the Welfare reform act 2012 have resulted in further uncertainty over funding.
- The Council will become increasingly reliant on new sources of income such as the new homes bonus to finance expenditure going forward.



2. Delivery of service redesign

- The Council has a number of initiatives aimed at improving service delivery whilst minimising costs. The "Bridging the Gap" programme seeks to reduce costs into the medium term. Current initiatives include the establishment of the leisure and culture trust, ICT service redesign, management restructuring and a review of accommodation.



3. Town centre development

- The Council is seeking to encourage economic development for the benefit of the Borough. The town centre development schemes including those at Boots corner, North Place and the Lower High Street seek to promote business growth into the medium term.



Our response

- 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 Value for Money work

- We undertake a high level review the Councils arrangements in place for delivering improvements in service provision whilst minimising costs.

- We will undertake a high level review of the Councils ability to work with other stakeholders to deliver economic development to the Borough as part of our Value for Money work.

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.

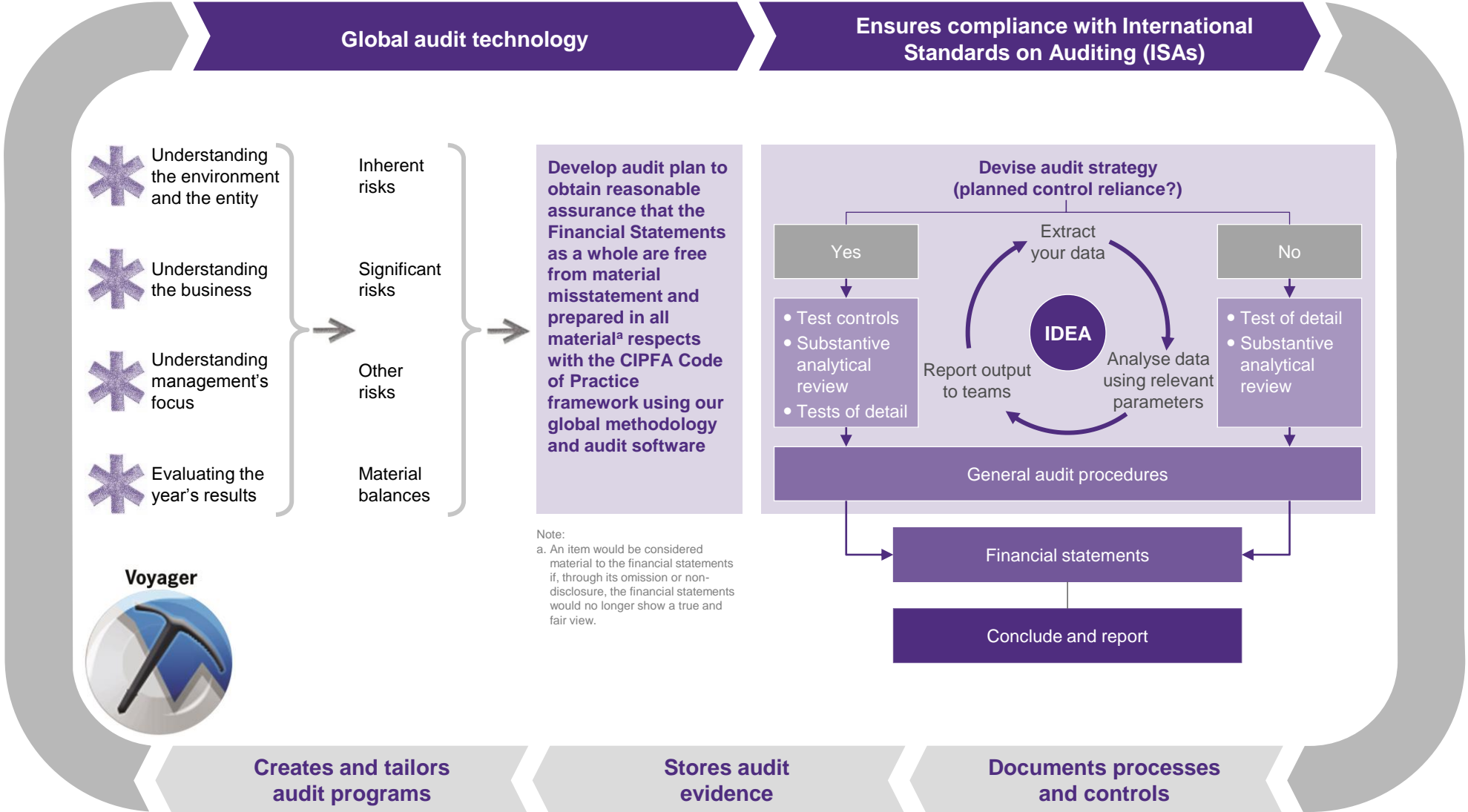
Developments and other requirements

<p>1. Financial reporting</p> <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 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<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 and business rate appeals through discussions with management and our substantive testing 	<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 	<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 and a review of the entries in your draft 2013/14 financial statements. 	<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
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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	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Further work planned: <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.	Work completed to date: <ul style="list-style-type: none">• Initial testing of journal entries in months 1 to 9 of the current financial year Further work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Completion of testing of entries from months 1 to 9 and testing of remaining journal entries relating to the current financial year.• 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 (relating to both I&E and Balance sheet)	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Documentation of understanding of controls and walkthrough to be completed in March by auditor at the Forest of Dean • Substantive testing of operating expenditure
Employee remuneration	Employee remuneration accrual understated (relating to I&E)	<ul style="list-style-type: none"> • Document our understanding of the controls operating in the operating expenses system • Performed walkthrough to confirm that controls are operating as described 	<ul style="list-style-type: none"> • Substantive testing of employee remuneration
Welfare Expenditure	Welfare benefit expenditure improperly computed (relating to I&E)	<ul style="list-style-type: none"> • Document our understanding of the controls operating in the welfare expenditure system • Performed walkthrough to confirm that controls are operating as described 	<ul style="list-style-type: none"> • Completion of housing benefits subsidy certification modules. • Substantive testing of sample of welfare expenditure

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
Housing Rent Revenue Account	Revenue transactions not recorded (relating to I&E)	<ul style="list-style-type: none"> • Document our understanding of the controls operating in the HRA income system • Performed walkthrough to confirm that controls are operating as described 	<ul style="list-style-type: none"> • Reconciliation of HRA Orchard system to the accounts • Analytical review of HRA income for the year.
Property, Plant & Equipment	PPE activity not valid (Balance sheet)	<ul style="list-style-type: none"> • Document our understanding of the controls operating in the PPE system • Performed walkthrough to confirm that controls are operating as described 	<ul style="list-style-type: none"> • Substantive testing of additions and disposals relating to PPE
Property, Plant & Equipment	Revaluation measurement not correct (Balance sheet)	<ul style="list-style-type: none"> • Document our understanding of the controls operating in the PPE system 	<ul style="list-style-type: none"> • Walkthrough of the valuation process • Review of the instructions to and report from valuers to confirm process is compliant with the code. • Agreement of valuations to information provided by the valuers

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	Risks identified	Planned audit approach
Cheltenham Borough Homes	Yes	Comprehensive	None	Full scope UK statutory audit performed by Grant Thornton
UBICO Ltd	Yes	Targeted	None	Specific (targeted) scope procedures to be performed by Grant Thornton
Gloucestershire airport	No	Analytical	N/A	Desktop review performed by Grant Thornton

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 have not identified any significant risks which we are planning to undertake additional work on.

As part of our work we will follow up progress on any issues discussed with the Council following last years VfM work.

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.

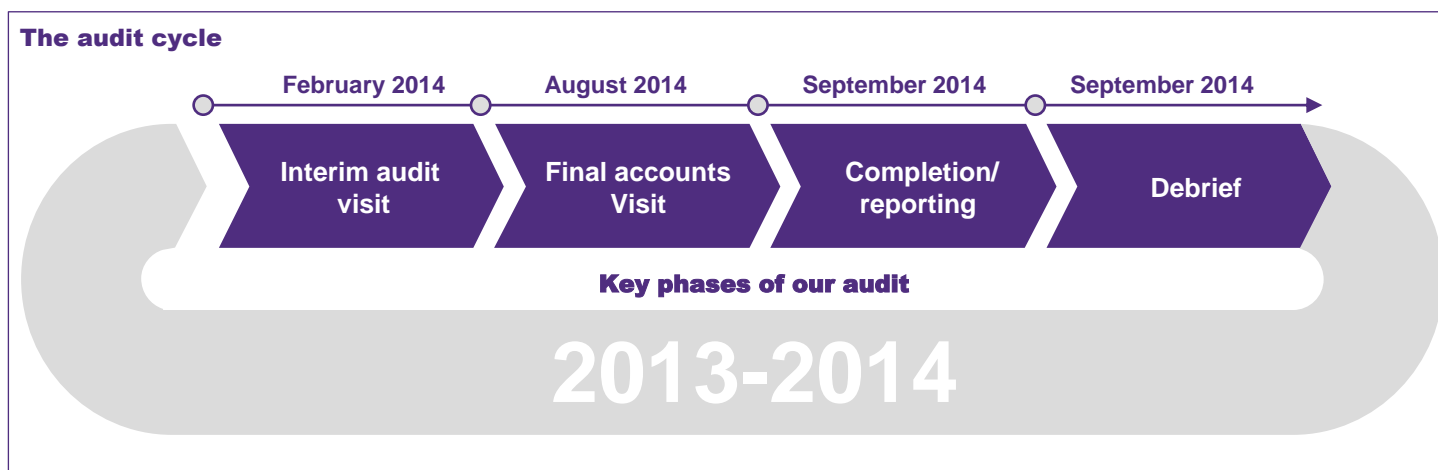
Results of interim audit work

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 reviewed internal audit's overall arrangements in accordance with auditing standards. 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 has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating on Welfare Expenditure, Housing Revenue Account and Employee Remuneration which are 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> <p>We are still to conclude our work on PPE and Operating expenditure</p>
Review of information technology controls	<p>Our information systems specialist perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. They also performed a follow up of the issues that were raised last year.</p>	<p>IT (information technology) controls work is expected to be undertaken in March 2014, on agreement with officers.</p>

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have started detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Further testing will be undertaken in late March as part of our early substantive testing visit.</p> <p>We will undertake testing on the remaining 3 months of the year and post year end as part of our final accounts visit.</p>
Early substantive testing	<p>No early substantive testing has been undertaken to date. It has been agreed with officers that operating expenditure and employee remuneration testing will be undertaken in late March</p>	<p>A strategy to undertake early testing has been agreed with officers.</p>
Value for money	<p>An initial assessment based on prior year findings, review of current available information and our own knowledge to inform whether we undertake work on specific areas</p>	<p>No issues have been identified from the initial risk assessment</p> <p>Review findings from initial findings based on activity in April to September to identify whether there are any developments which could effect our conclusion</p>

Key dates



Date	Activity
January 2014	Planning
February 2014	Interim site visit
26 th March 2014	Presentation of audit plan to Audit Committee
August 2014	Year end fieldwork
September 2014 (date TBC)	Audit findings clearance meeting with Director of Finance
24 September 2014 (proposed)	Report audit findings to those charged with governance
30 th September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	64,974
Grant certification	13,300
Total audit fees (excluding VAT)	78,274

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 £
Review of budget overspend on Cheltenham's Museum and Art Gallery.	9,480 (excluding Vat)

Independence and ethics

The Council has requested that Grant Thornton carry out a review of the reasons for the overspend on the Museum/Art Gallery refurbishment project. Grant Thornton has submitted a specification and we are awaiting formal approval of the appointment. Should work proceed the work will be undertaken independently of the audit team by Grant Thornton's Forensic and Investigation Services.

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
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		✓



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