

# The Audit Plan for Cheltenham Borough Council

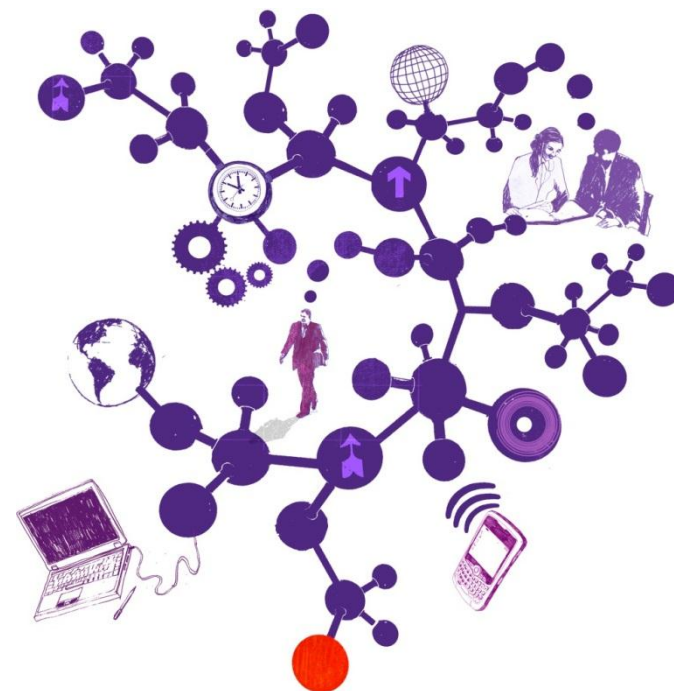
**Year ended 31 March 2013**

8 March 2013

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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 position

- The Council's financial position is challenging for delivering services within reduced budgets
- Reduction in revenue support grant, but increase in New Homes Bonus
- Localisation of Council tax (with effect from 1 April 2013)
- NNDR pooling (with effect from 1 April 2013)

### 2. Roll out of the GO shared service

- Payroll provided by Cheltenham
- Accounts receivable provided by Cheltenham
- Accounts payable provided by Forest of Dean

### 3. Council restructuring

- The Council is continuing to implement its programme of organisational changes.

### 4. New initiatives

- The Council is progressing a number of new initiatives under the umbrella of "Bridging the Gap" aimed at ensuring a balanced budget in the medium term.
- The Council has outsourced some of its services to UBICO from 1 April 2012

### 5. Joint waste committee

- Formation of a joint waste committee with Gloucestershire County, Cheltenham Borough, Cotswold District and Forest of Dean Councils with effect from 1 April 2013.

## Our response

- We have held discussions with the Director of Resources to fully understand the financial risks facing the Council and the forecast for the medium term.
- We will continue to monitor the financial position for the remainder of the financial year.

- We are working with our Grant Thornton colleagues and with internal audit to see how best to obtain assurance over the GO financial systems.

- We will consider the effectiveness of arrangements in place to achieve the restructuring plans as part of our value for money work.

- We have held discussions with the Director of Finance and the Chief Executive to fully understand the various elements of the Council's savings plan and the future potential projects that may increase Council revenues.
- We will consider the effectiveness of arrangements in place to achieve these plans as part of our value for money work.

- We will discuss how the Committee should be disclosed in the 2012/13 accounts and accounted for in the 2013/14 accounts with the Group Manager Finance and Property.
- This is evidence of the Council considering alternative ways of delivering services, which positively impacts on our 2012/13 value for money conclusion.

# 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 and associated guidance.

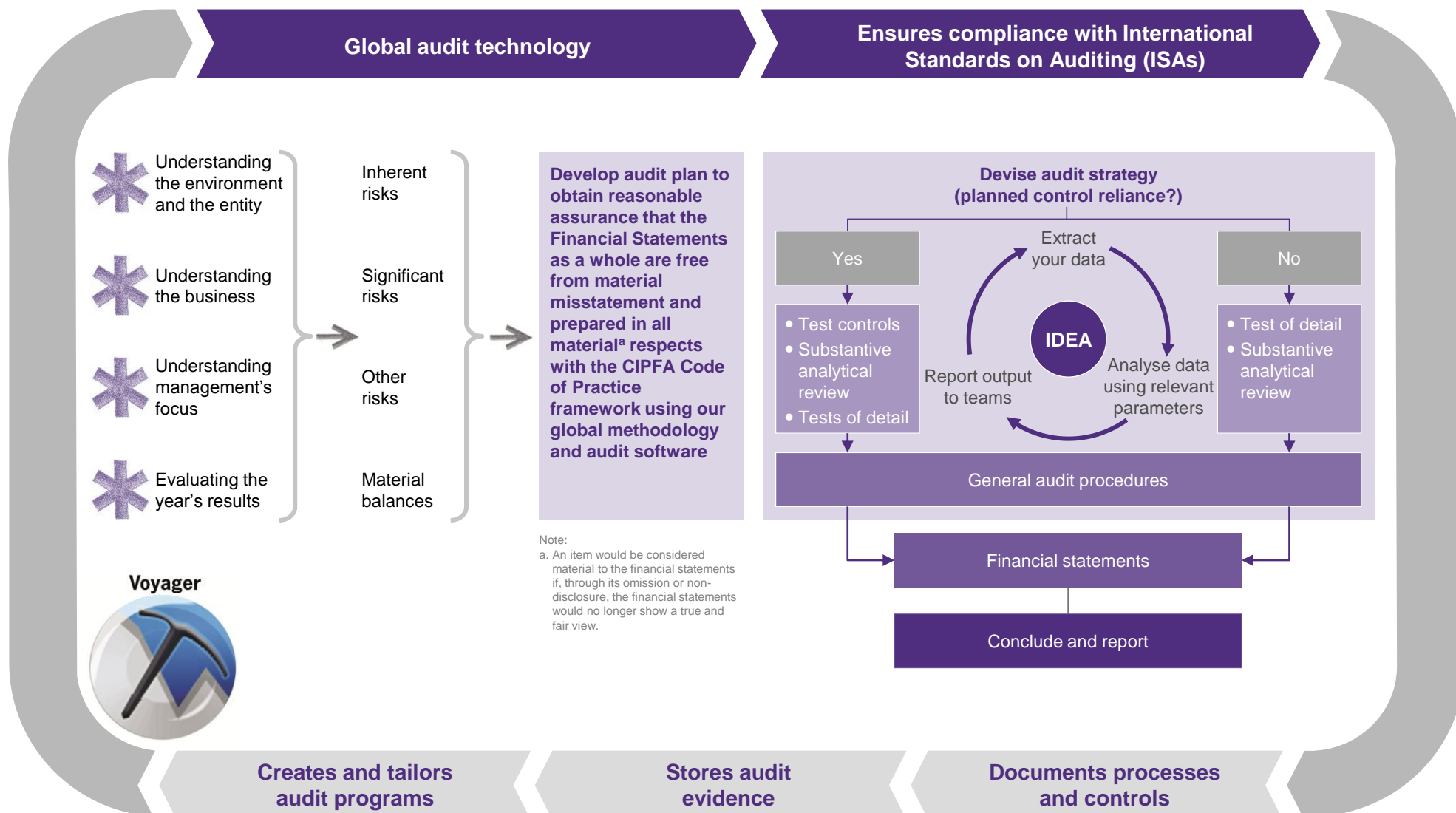
## Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Recognition of grant conditions and income</li> </ul>	<ul style="list-style-type: none"> <li>Local Government Finance settlement 2012/13</li> <li>Welfare reform Act 2012</li> </ul>	<ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<ul style="list-style-type: none"> <li>Planning for the impact of changes to the Local Government pension Scheme (LGPS). This includes the impact of auto-enrolment of employees in the LGPS, and from 2013/14 the move to an average salary scheme &amp; changing contribution rates</li> </ul>	<ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>

## Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing</li> <li>grant income is recognised in line with the correct accounting standard</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>
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# Our audit approach



# An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
Cost of services – Housing revenue	Yes	HRA	Medium	Other	Housing revenue transactions not recorded	✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	No	Council Tax	Low	None		×

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Dividend income from Joint Venture	No	Revenue	Low	None		×
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant& other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	No	Property, Plant & Equipment	Low	None		×



## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		×
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	No	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

# 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.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Performance of attribute testing on material revenue streams</li></ul>
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.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Review of unusual significant transactions</li><li>• Testing of journal entries</li></ul>

# Other risks

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/ operating expenses understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Documentation of accounting system processes &amp; walkthrough of controls</li> <li>Early testing of a sample of in-year creditor payments</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of material expenditure streams for the remainder of the 2012/13 financial year</li> <li>Substantive testing of significant creditor balances</li> <li>Review of after date payments to ensure all liabilities identified</li> </ul>
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> <li>Documentation of accounting system processes &amp; walkthrough of controls</li> <li>Early testing of a sample of payments to employees</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of employee remuneration expenditure</li> <li>Testing of disclosure notes covering redundancies and member /officer remuneration</li> </ul>
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> <li>Documentation of accounting system processes &amp; walkthrough of controls</li> <li>Completion of system parameters testing</li> </ul>	<ul style="list-style-type: none"> <li>Completion of housing and council tax benefits subsidy certification</li> </ul>
Housing Rent Revenue Account	Revenue transactions not recorded.	<ul style="list-style-type: none"> <li>Documentation of accounting system processes &amp; walkthrough of controls</li> <li>Identifying, and walkthrough of controls.</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of HRA income</li> </ul>
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> <li>Discussion on accounting system process and identification of controls</li> </ul>	<ul style="list-style-type: none"> <li>Walkthrough of year end controls</li> <li>Substantive testing of significant additions and disposals.</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>Discussion on accounting system process and identification of controls</li> </ul>	<ul style="list-style-type: none"> <li>Walkthrough of year end controls</li> <li>Agreement of entry in the financial statements to information provided by a professional valuer</li> </ul>

# 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
UBICO	Yes	Comprehensive	Operating Expenses / Creditors are not valid PPE activity not valid	Full scope UK statutory audit performed by Grant Thornton
Cheltenham Borough Homes Ltd	Yes	Targeted	Operating Expenses / Creditors are not valid	Specific (targeted) scope procedures to be performed by Grant Thornton.
Gloucester Airport	No	Analytical	N/A	Desktop review performed by Grant Thornton

Note: The above responses are based on our current understanding. We are awaiting the latest information on component turnover and assets and will provide the Council with an update of our Group strategy if necessary.

# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.  We will continue to review the internal audit's findings to inform our audit planning.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

## Results of interim audit work (continued)

	Work performed/due to be performed	Conclusion/ Summary
<b>Review of information technology (IT) controls</b>	<p>We have carried out an initial risk assessment of the IT environment and identified a low risk that any weaknesses in the controls operating would lead to a material error in the financial statements.</p> <p>Our information systems specialist is due to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that have been raised in the previous year</p>	Our work in this area is not complete, but to date no significant issues have been noted
<b>Journal entry controls</b>	<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>Detailed testing on journal transactions is still outstanding. At the year end we will undertake testing of transactions through out the financial year by extracting 'unusual' entries for further review.</p>	No significant weaknesses were noted. The policies and procedures in place to control journal entries is adequate .
<b>Budget Monitoring</b>	<p>In performing procedures on Preliminary Analytical Review, which informs our risk assessment, we reviewed the arrangements in place for budget monitoring.</p> <p>Budget monitoring to members, is by exception. Our testing of a sample of financial reports to cabinet identified that this summary position was not supported by detailed working papers. Reliance is placed on budget holders in consultation with management accountants to review their budgets and report issues,.</p> <p>We also identified inconsistencies in the service line figures reported at the budget setting, revised budget and outturn reporting preventing members from fully understanding the movements in year.</p>	There is a risk that members are not receiving a complete picture of the budget position against plan.

# Value for Money

## Introduction

The 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.

## 2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

## Code criteria

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 consider whether the Council is prioritising its resources with tighter budget

## Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Risk based work focusing on arrangements relating to prioritising resources and improving efficiency and productivity,



# Logistics and our team

## The audit cycle



Date	Activity
19.11.2012	Planning meeting
4.2.2013	Interim site work
20.3.2013	The audit plan presented to Audit Committee
24.6.2013	Year end fieldwork commences
31.8.2013	Audit findings clearance meeting
25.9.2013	Audit Committee meeting to report our findings
30.9.2013	Sign financial statements and VfM conclusion
30.10.2013	Issue Annual Audit Letter

## Our team

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# Fees and independence

## Fees

	£
Council audit	64,974
Grant certification	12,750
<b>Total</b>	<b>77,724</b>

## Our fee assumptions include:

- Our fees are exclusive of VAT
- 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](http://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 (Mar)	ISA 260 report (Sept)
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		
Any material weaknesses in internal control identified during the audit		✓
Any identified or suspicions of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Any issues of non compliance with laws and regulations		✓
Any expected modifications to the auditor's report, or emphasis of matter		✓
Any identified uncorrected misstatements		✓
Any significant matters arising in connection with related parties		✓
Any significant matters in relation to going concern		✓

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# Appendices

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# 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	Budget reports to members should be supported by formal working papers held by finance which demonstrate that the report is complete and that all potential exceptions have been reported.	Medium		
2	Reports to Members at budget setting, revised budget and outturn stages should be consistent.	Medium		



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