

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

2nd May 2014

Report of: Strategic Director (Corporate Services)

Title: Grant Thornton's Audit Plan 2013-14

Ward: Citywide

Officer presenting report: Mark Taylor S151 Officer

Contact telephone number: 0117 92 22448

RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's Audit Plan for 2013-14.

Summary

Attached to this report is the Grant Thornton Audit Plan 2013-14, which sets out the work they will carry out in discharging their responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

The key considerations set out within this report are:

- This plan sets out Grant Thornton's responsibilities under the Code of Audit Practice.
- The plan includes an assessment of current local risks relevant to the audit and the proposed response to these risks.

Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant

statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

Consultation

Internal: Grant Thornton consulted with the Service Director (Finance) before finalising the Plan.

External: None.

1 Introduction

1.1 Grant Thornton, responsible for the Council's audit, will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable.

Risk Assessment

Not as a result of this report.

Equalities Impact Assessment

There are no issues arising from this report.

Legal and Resource Implications

None arising from this report.

Appendices:

Appendix 1: Grant Thornton's Audit Plan 2013-14.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None



The Audit Plan for Bristol City Council

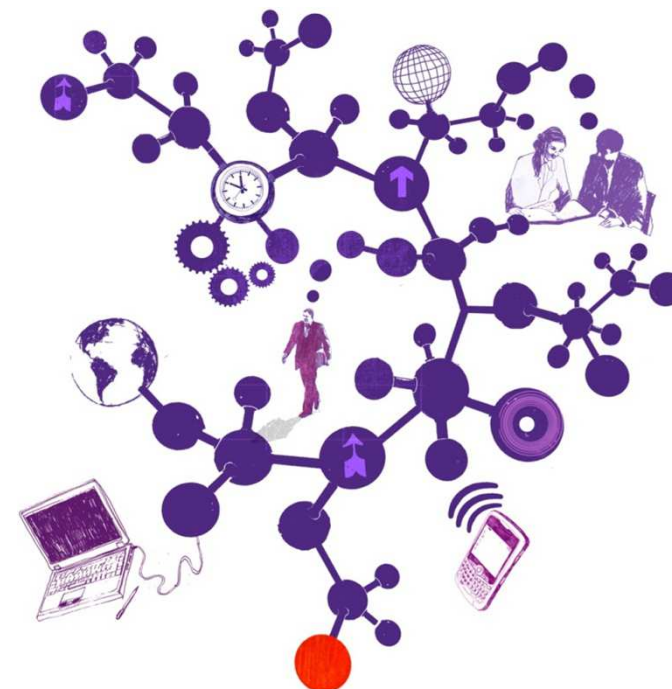
Year ended 31 March 2014

25 April 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. Savings requirements <ul style="list-style-type: none"> There is a continued requirement for all Public Sector organisations to make difficult to achieve savings in the financial year. This is approximately £35m for 2013/14 	2. Implementation of new financial system <ul style="list-style-type: none"> Agresso Business World has been operating as the Council's financial system from 1 April 2013. 	3. Council Reorganisation <ul style="list-style-type: none"> There is a commitment to reduce staff numbers by 800 across the whole Council to help achieve savings targets. This may affect staff morale and have an impact on staff productivity. 	4. Local Government Finance Act <ul style="list-style-type: none"> From 1 April 2013 Council tax benefit is being replaced with a local Council Tax Support Scheme Business Rates retention is being implemented from 1 April 2013 which will include consideration of the Regional City Deal 	5. Pensions <ul style="list-style-type: none"> Potential prepayment of contributions covering the next three financial years is subject to legal challenge 	6. Corporate Governance <ul style="list-style-type: none"> Following the election of the Mayor in 2012 the governance arrangements continue to develop.
					
Our response					
<ul style="list-style-type: none"> We will review the arrangements in place for the Council to achieve Economy, Efficiency and Effectiveness. This will be done through our assessment of the Value for Money (VfM) conclusion. 	<ul style="list-style-type: none"> We will work with the Council to ensure that information requests are reasonable and timely and ensure that any work undertaken is fully considered and documented. 	<ul style="list-style-type: none"> We will be sensitive when dealing with affected staff. We will ensure any questions are addressed to the correct person in a professional manner. We will also consider the impact as part of our review of the VfM conclusion. 	<ul style="list-style-type: none"> As part of our work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes We will discuss and review the accounting impact of these changes with the finance team 	<ul style="list-style-type: none"> We will continue discussions over the issue with Senior Management and ensure an appropriate conclusion is reached 	<ul style="list-style-type: none"> We will review the corporate governance arrangements, including assessing the progress made against the recommendations we raised in 2013.

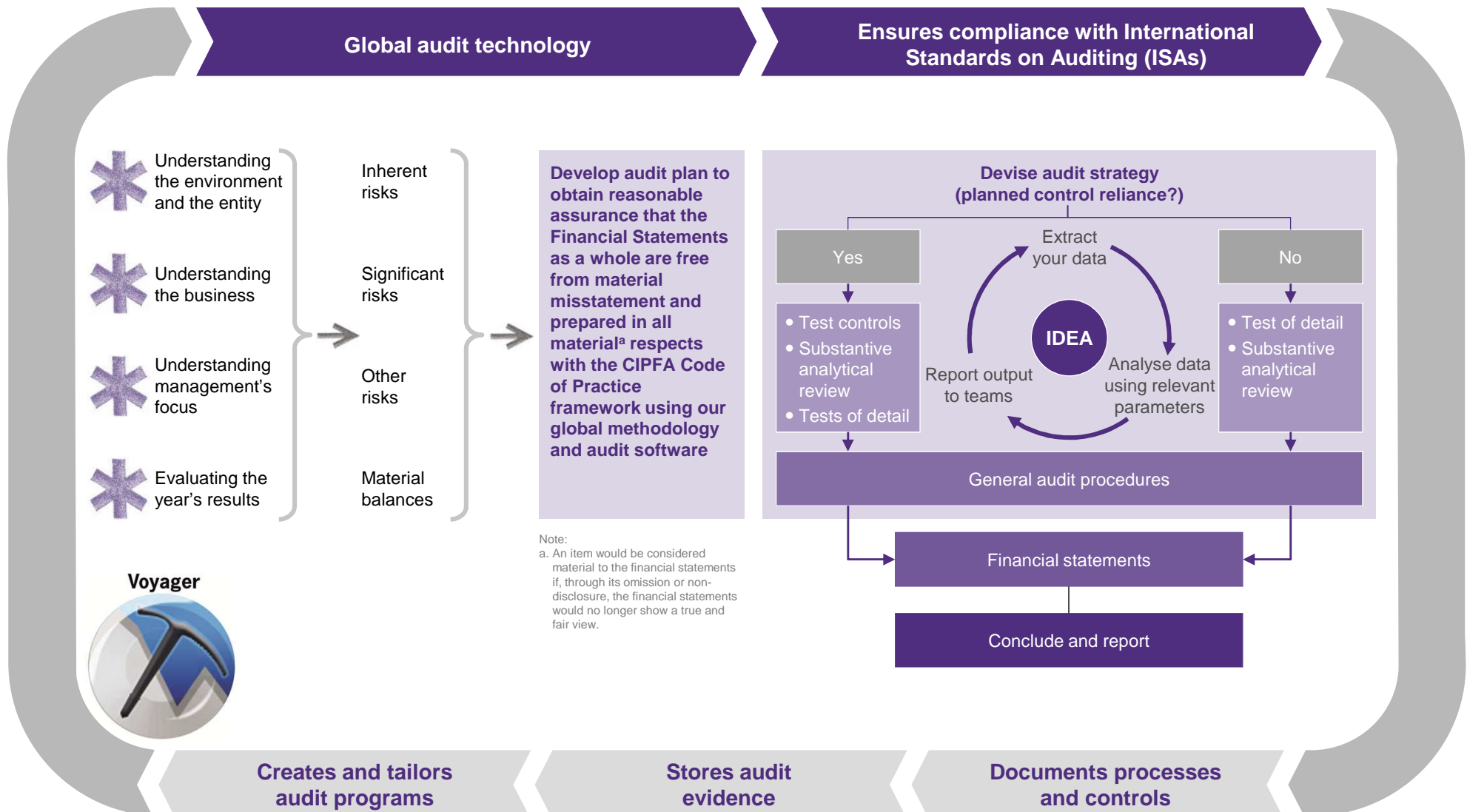
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
1. Financial reporting <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Clarification of Code requirements around PPE valuations Changes to NDR accounting and provisions for business rate appeals Transfer of assets to Academies 	2. Legislation <ul style="list-style-type: none"> Local Government Finance settlement Welfare reform Act 2012 	3. Corporate governance <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	4. Pensions <ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	5. Financial Pressures <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	6. Other requirements <ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> the Council complies with the requirements of the CIPFA Code of Practice 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 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 	<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.	Work completed to date: <ul style="list-style-type: none">• Review of revenue recognition policies Further work planned: <ul style="list-style-type: none">• Testing of revenue recognition policies• Performance of attribute 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">• Review of opening balances Further work planned: <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">Review of internal financial controls relating to operating expenses	<ul style="list-style-type: none">Substantive testing of material expenditure streamsReview of after date payments to ensure all liabilities identified
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none">Review of internal financial controls relating to employee remuneration	<ul style="list-style-type: none">Substantive testing of employee remuneration expenditure
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none">Review of internal financial controls relating to calculation of housing benefits	<ul style="list-style-type: none">Completion of housing benefits subsidy certification
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none">Review of internal financial controls relating to HRA rental revenue	<ul style="list-style-type: none">Substantive testing of HRA rental revenue
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none">Review of internal financial controls relating to PPE additions and disposals	<ul style="list-style-type: none">Substantive testing of PPE additions and disposals
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none">Review of internal financial controls relating to PPE valuations	<ul style="list-style-type: none">Review of accounting entries in respect of any revaluations to ensure these are fully and accurately reflected in the accounts
Property, Plant & Equipment	Property, plant and equipment are impaired	<ul style="list-style-type: none">Review of internal financial controls relating to PPE impairments	<ul style="list-style-type: none">Review of accounting entries in respect of any impairments to ensure these are fully and accurately reflected in the accounts

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 across both VfM criteria and consider progress against the following risks identified last year:

- the introduction of an elected Mayor resulted in a change in the Council's governance arrangements. The risk is that following this change effective corporate and financial governance arrangements are not in place.
- that the Council is not financially resilient or does not have an agreed Medium Term Financial Plan which brings together the Council's strategic priorities and the Mayor's election pledges.

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.

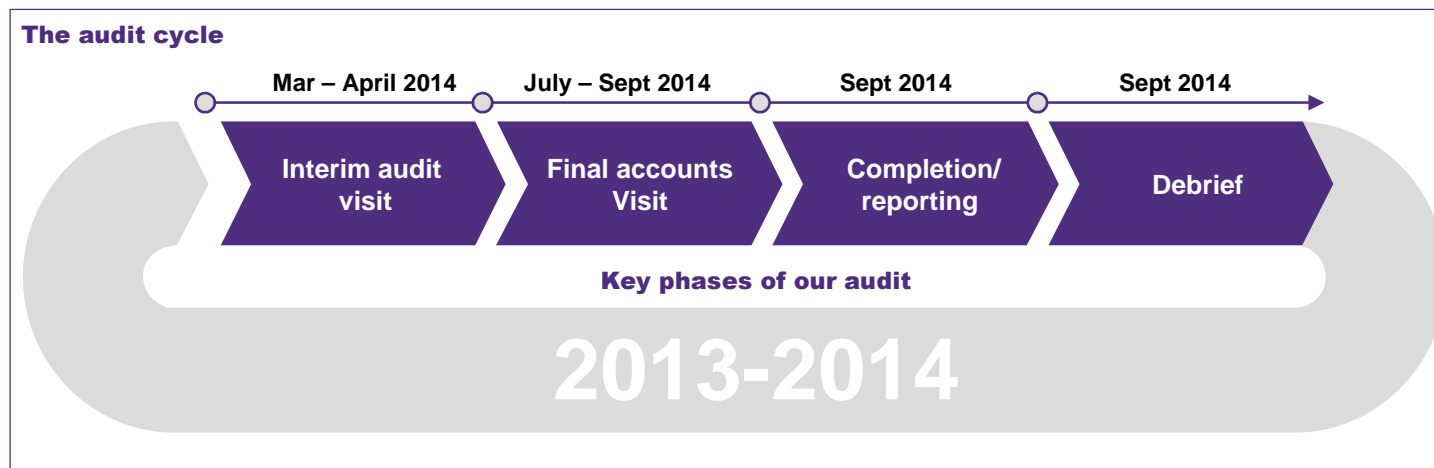
Results of interim audit work

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	We have reviewed internal audit's overall arrangements but have not carried out detailed testing of files against the CIPFA criteria. 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
Walkthrough testing	We have completed walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These relate to: <ul style="list-style-type: none">• Operating Expenses• Employee Remuneration• Housing Benefit• Housing Revenue Account• Property, plant and equipment	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding
Review of information technology controls	Our information system specialists have arranged to perform a review of the general IT control environment in April 2014	Following completion of this work we will confirm whether there are any material weaknesses which are likely to adversely impact on the Council's financial statements
Suspense Accounts	We have been alerted to the existence of a suspense account which throughout the year held a material balance. We have discussed this with management and believe this to be the result of lack of understanding by users and hence the creation of duplicate postings.	We understand that Internal Audit are currently investigating this suspense account as part of the bank reconciliation process. We will review the findings and use these to determine if further work is needed in this area.

	Work performed	Conclusion
Journal entry controls	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.	Following completion of journal testing we will confirm whether there are any material weaknesses which are likely to impact on the Council's financial statements
Early substantive testing	Early substantive testing has been undertaken on Employee Remuneration examining records for the first nine months of the financial year, by extracting payroll records from the total population. No issues have been identified that require to be reported	No issues have been identified from the population tested thus far. We will complete testing of employee remunerations as part of the audit of the statement of accounts.
Follow up of prior year recommendations	We have considered the recommendations made following our 2012-13 audit of financial statements and discussed progress with the finance team	We will continue to review progress against recommendations raised as the implementation of these will be reviewed during the preparation of the 2013-14 financial statements

Key dates



Date	Activity
February 2014	Planning
March- April 2014	Interim site visit
April 2014	Presentation of audit plan to Audit Committee
July – September 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Section 151 officer
September 2014	Report audit findings to those charged with governance (Audit Committee)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	270,513
Grant certification	15,388
Total fees (excluding VAT)	285,901

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- That no further work will be needed on the suspense accounts. If further work becomes necessary we will update the Council as to a likely indication of fees at that point.

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		✓