

Audit Committee – 16 July 2014

External Auditor's Audit Plan Report 2013/14

1. Summary of report

- 1.1 This report contains the external auditors Audit Plan 2013/14 providing details regarding Grant Thornton's audit approach for the 2013/14 Statement of Accounts along with the results of their Interim Audit work, recommendations arising from this and the Council's response. The report also includes follow up of previous year's recommendations.

2. Recommendations

- 2.1 Audit Committee is requested to note the report and the measures being taken to ensure the council meets its obligations.



James Walsh, Chief Finance Officer
03 July 2014

3. Governance

- 3.1 Each year the council's external auditors, Grant Thornton, are required to report to the Audit Committee on their approach to their audit of the annual accounts and the results of their Interim Audit of the accounts. The report highlights several recommendations and includes the council's action plan setting out how it intends to respond to these.

4. Resource and legal considerations

- 4.1 None directly relating to this report.

5. Performance and risk management issues

- 5.1 Performance and risk management is embedded in the final accounts process.

6. Equality implications

- 6.1 None directly associated with this report.

7. Consultation

- 7.1 The report is prepared in consultation with finance and senior officers across the council.

8. Background papers - Various financial working papers.

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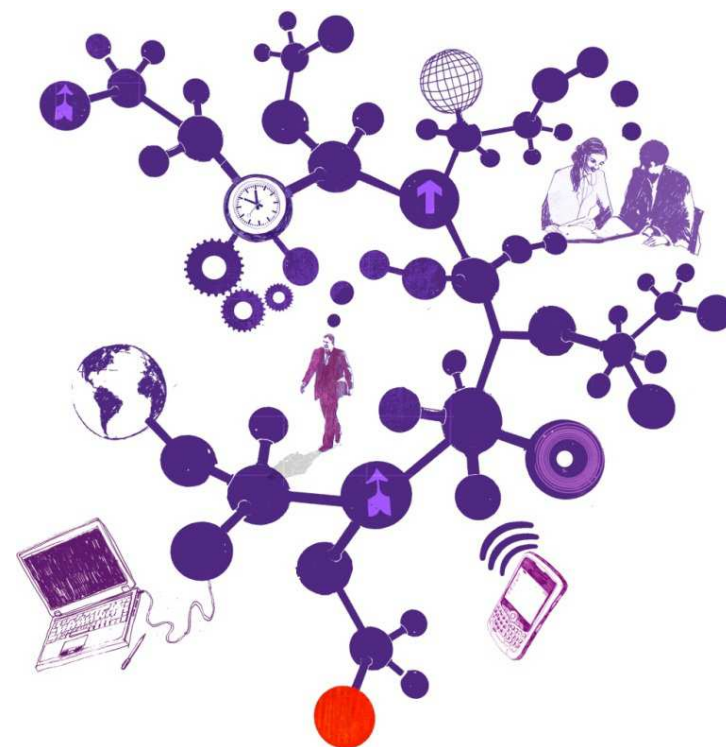
The Audit Plan for Walsall Metropolitan Borough Council

Year ended 31 March 2014

June 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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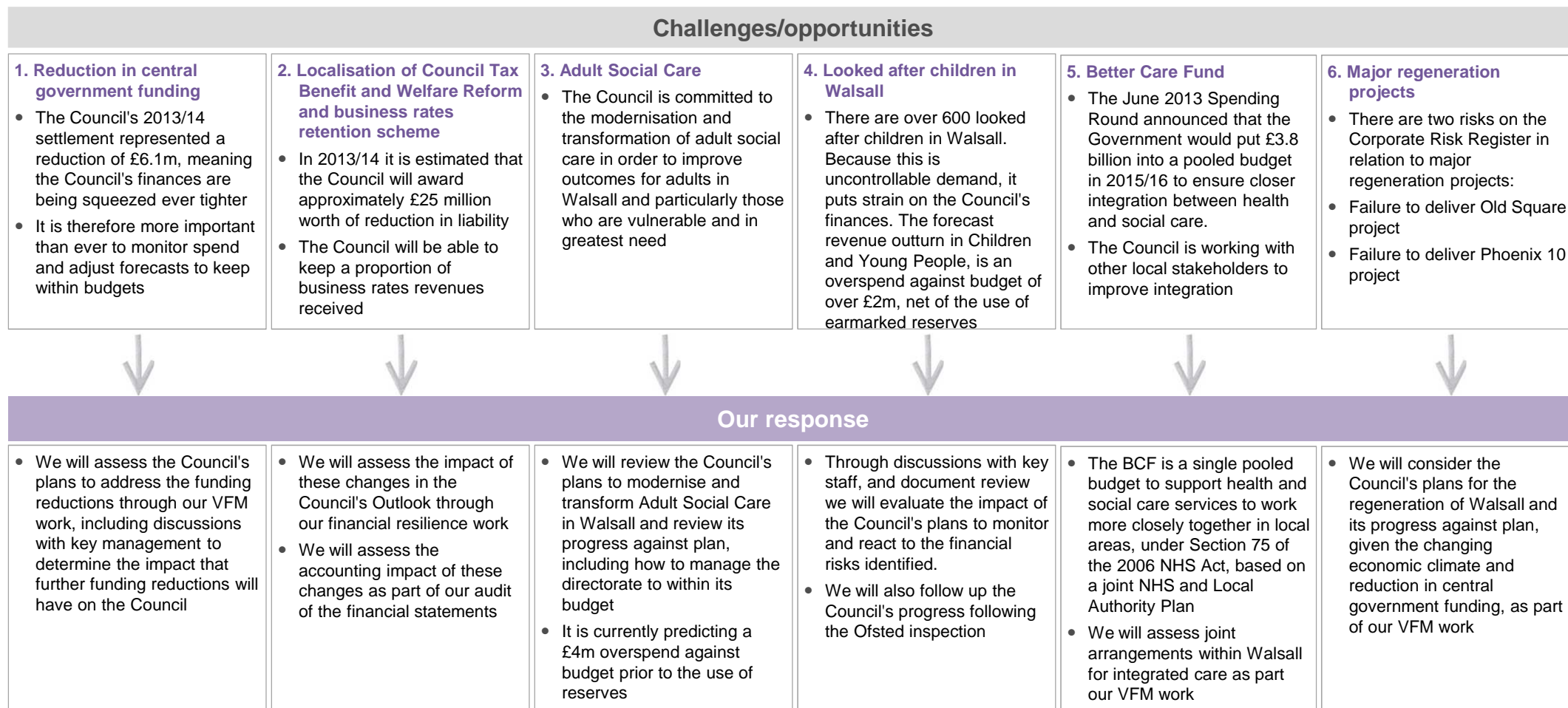
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- A. Action plan

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.



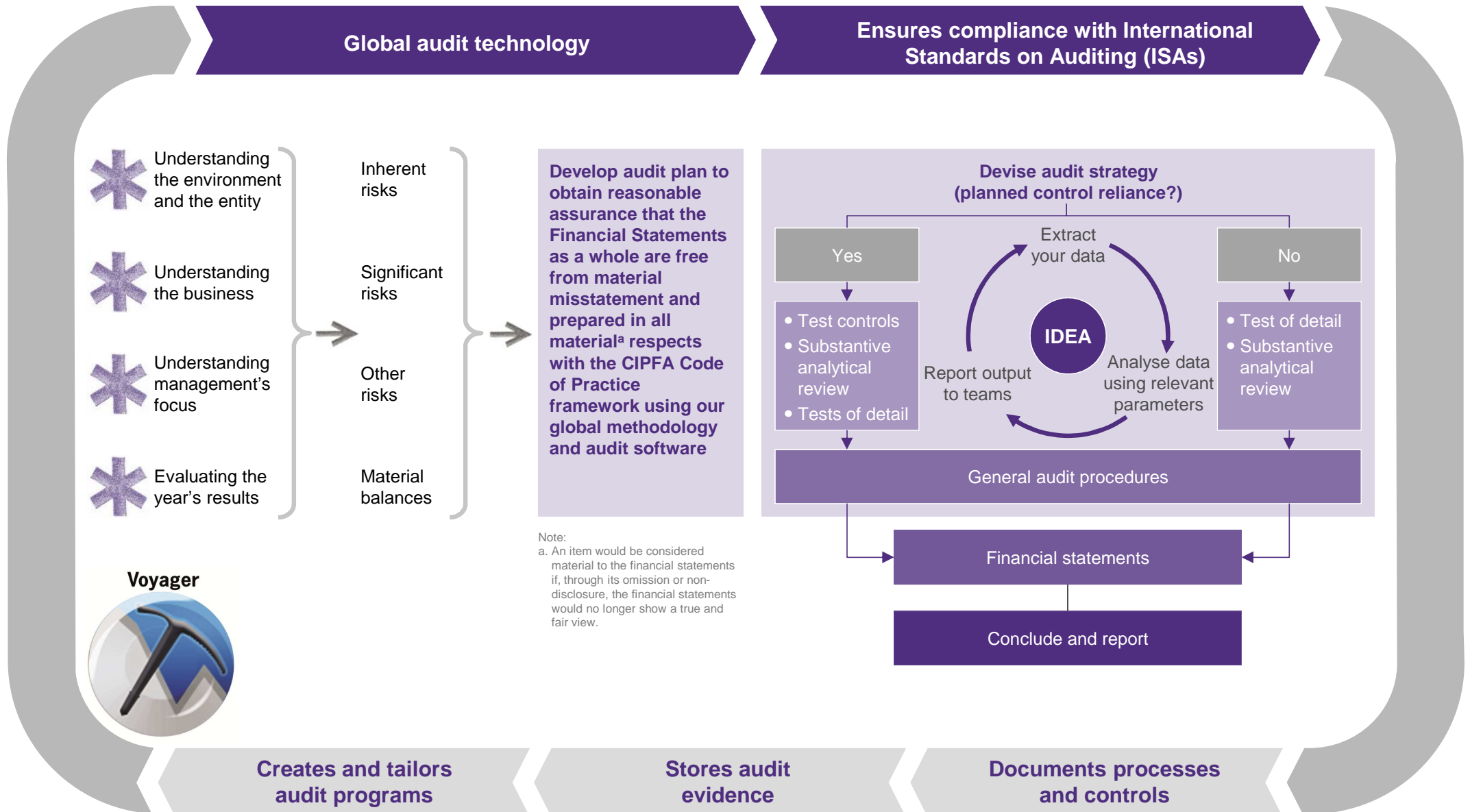
Developments relevant to your business and the audit

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 Code requirements in respect of PPE valuations have been adhered to 	<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 We will follow up the work done by the Council to address our recommendation under section 11(3) of the Audit Commission Act, made in our 2012/13 Annual Audit Letter in respect of governance arrangements 	<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 We have already liaised with the Council during the year to date to agree accounting treatment in respect of forward funding arrangements. We will report on this in more detail in our Audit Findings Report 	<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 test revenue recognition policies• Test 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 accounting estimates, judgments and decisions made by management• Test of journal entries• Review 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 our understanding of the processes and key controls over the transaction cycle Walkthrough tests were completed in relation to the completeness assertion, which we consider to present a risk of material misstatement, to assess whether those controls are designed effectively 	<ul style="list-style-type: none"> We will undertake key control tests in relation to the completeness assertion We will perform tests of detail on the operating expenses included in the financial statements
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> We have documented our understanding of the processes and key controls over the transaction cycle Walkthrough tests were completed in relation to the completeness assertion, which we consider to present a risk of material misstatement to the financial statements. 	<ul style="list-style-type: none"> Tests of detail on the employee remuneration accrual and tax obligation Sample testing of employee remuneration expenditure throughout the year Agreement of employee remuneration disclosures in the financial statements to supporting evidence
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have documented our understanding of the processes and key controls over the transaction cycle Walkthrough tests were completed in relation to the valuation – gross assertion, which we consider to present a risk of material misstatement to the financial statements. 	<ul style="list-style-type: none"> Tests of detail on the final Housing Benefit Claim using the HBCOUNT methodology, with assurance taken from our testing of initial cases Review accounting treatment following the replacement of council tax benefit from April 2013 by localised support for council tax, to ensure that it has followed SeRCOP requirements

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
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> We have documented our understanding of the processes and key controls over the transaction cycle Walkthrough tests were completed in relation to the valuation – gross assertion, which we consider to present a risk of material misstatement to the financial statements. 	<p>We will perform tests of detail on the value of Property, Plant and Equipment disclosed within the financial statements as follows:</p> <ul style="list-style-type: none"> Sample test additions and disposals to supporting documentation Review performance against the capital plan for the year and obtain explanation for significant variations Review the treatment of non-enhancing capital expenditure recorded in the accounts Test a sample of items charged as REFCUS expenditure in year (Revenue Expenditure Funded from Capital under Statute) Review the accounting policies applied to PPE, particularly in respect of valuations, to ensure that the clarifications in this year's Code have been complied with
Investments (long & short term) – Financial Instruments	Fair value measurements not correct	<ul style="list-style-type: none"> We have documented our understanding of the processes and key controls over the transaction cycle Walkthrough tests were completed in relation to the valuation – gross assertion, which we consider to present a risk of material misstatement to the financial statements. 	<ul style="list-style-type: none"> We will review the valuation method applied to the Council's shareholding in Birmingham Airport

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. As part of our continuing assessment we will undertake work in the following areas to address the risks identified:

- Financial resilience; encompassing reduction in central government funding, business rates retention scheme and localisation of council tax benefit and welfare reform
- Adult Social Care
- Looked after Children in Walsall
- Health & Wellbeing and the Better Care Fund
- Delivery of major regeneration projects

We will also be undertaking an additional piece of risk based work to inform our Code of Audit Practice conclusion in this area, pertaining to the Council's governance arrangements. This work is:

- review the outcomes of the Council's Corporate Governance Forum, which has been specifically set up to re-design the Council's governance framework, in terms of the Council's overall governance procedures and comment on how they compare with best practice
- assess the levels of understanding, compliance and attitude towards proper governance at the Council
- comment on implications for embedding the (revised) governance framework, communication of plans and the on-going adequacy of the Council's planning, monitoring and review arrangements

The results of our VfM audit work, as well as the results of the additional piece of risk based work referred to above, and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will issue a separate report in respect of VfM which will show more detailed findings from our work.

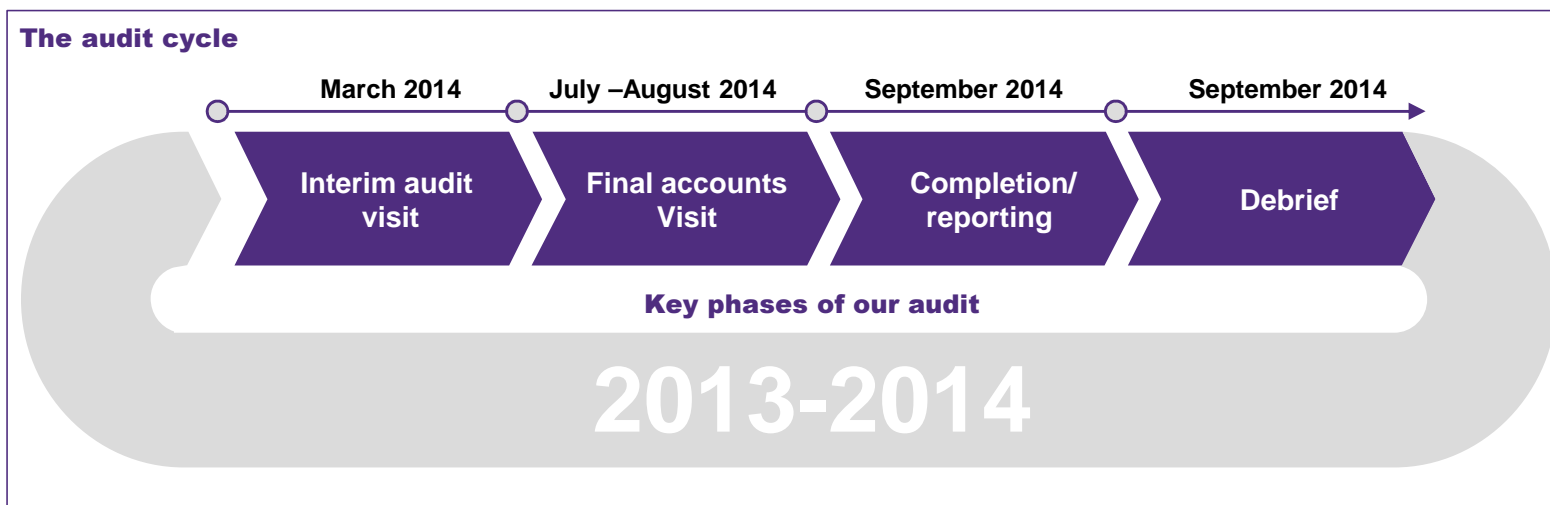
Results of interim audit work

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> <p>As part of our final accounts visit we will review those internal audit reports that have since been finalised and take account where applicable of any impact on our audit approach.</p>
Walkthrough testing	<p>We have completed 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 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>However, we at the time of our interim visit we were unable to review Bank Account Reconciliation in respect of Welfare Expenditure, due to absence of a member of staff. We have since completed this work remotely.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>However, we recommend that in the absence of staff, other members of the team are trained to carry out key functions.</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We have however raised two recommendations, which can be found in the Action Plan at Appendix A.</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 undertaken detailed testing on journal transactions recorded for the first eleven 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>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>In addition, our follow up review to consider implementation of prior year recommendations confirmed that these have been implemented. These were:</p> <ul style="list-style-type: none"> - The Council should formalise the process of sample testing journals and retain documentation evidence of the journals reviewed. <p>The systems team have implemented the recommendation in full and have carried out a review of approximately 600 journals this year.</p> <ul style="list-style-type: none"> - The Council should enable the functionality with Oracle, therefore ensuring that a unique sequential journal number is created for each journal processes. <p>We have confirmed this from review of the full journal transaction listing provided for our eleven month testing and noted that as of August 2013 the system is generating journal numbers.</p>

Key dates



Date	Activity
February 2014	Planning
March 2014	Interim site visit
July 2014	Presentation of audit plan to Audit Committee
July and August 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Head of Finance
September 2014	Report audit findings to those charged with governance (Audit Committee)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	189,000
Grant certification	18,782*
Total fees (excluding VAT)	207,782

* Our Grant Certification fee is in accordance with Audit Commission scale fees. It has been reduced year on year to take account of the reduction in work required for the Housing Benefit Subsidy Scheme and because the Teachers' Pensions certificate is continuing in 2013/14 with assurance arrangements outside section 28/19988 (ie outside the Audit Commission regime), such that we are no longer required to certify these return.

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 £
Governance Review	18,000
VAT Review	5,000

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		✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<p>Completion of bank reconciliations</p> <p>During our interim visit we were unable to review the bank reconciliation in respect of Welfare Expenditure as the member of staff responsible for undertaking the reconciliation was on leave and therefore the reconciliation had not been performed.</p> <p>This poses a risk to the Council as it means that any issues arising from a result of the reconciliation are not identified on a timely basis.</p> <p>We recommend that additional staff are trained to perform key functions, such as reconciliations, to ensure business continuity in the absence of the staff member usually responsible.</p>	Medium	All reconciliations are now complete. The service is undertaking training of other members of the team to be able to complete this task, this will ensure business continuity in the absence of the member of staff member who is usually responsible.	Business Services Team Leader, Money, Home, Job (PR) 31 July 2014
2.	<p>Review of user permissions granted on the Northgate Revenue & Benefits system</p> <p>Reviews of user accounts defined on the Northgate Revenues & Benefits system have not been performed within the past year due to a change in the structure of the Revenues & Benefits teams. A process should be developed to periodically review access privileges of users defined on Northgate to ensure that access privileges remain appropriate and that appropriate segregation of duties are in place.</p>	Low	A review of user permissions granted on the Northgate Revenues and Benefits system is underway and will be completed by 30th September 2014. Human Resources will be engaged in the process in an endeavour to produce a regular formal review of user access privileges.	Business Support Officer, Money, Home, Job (DS) 30 September 2014

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
3.	<p>Oracle Financials and Northgate password parameter settings</p> <p>We noted that the minimum password length settings have not been defined on Oracle Financials. Therefore as per default Oracle password settings, a minimum length of 5 characters is required.</p> <p>We recommend that Oracle minimum password length should be defined and kept in line with Active Directory settings of 7 characters.</p>	Low	On Oracle, the password requirements will be amended so it is 7 characters long.	Senior Accountancy Officer – Systems Team, Finance (DT) 9 June 2014
4.	<p>Oracle Financials and Northgate password parameter settings</p> <p>Password complexity (i.e. the requirement that passwords must contain more than one character set, such as numbers and letters) is not enforced within the Northgate Revenues & Benefits system.</p> <p>We recommend that the Council adopts a consistent security policy across all applications and databases. Management should ensure that password complexity settings have been enforced on all systems including the Northgate Revenues & Benefits system.</p>	Low	A review of the complexity of the Northgate Revenues and Benefits system passwords will be undertaken and will be completed by 30th September 2014. While it is recognised that Walsall MBC should adopt a consistent security policy across all applications and databases each computer system will have limitations on how closely the passwords can be controlled. Every effort will be made to ensure that the Northgate Revenues and Benefits password parameter settings match the protocols set by ICT as closely as possible.	Business Support Office, Money, Home, Job (DS) 30 September 2014



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