

The Audit Plan for Dover District Council

Year ended 31 March 2015

April 2015

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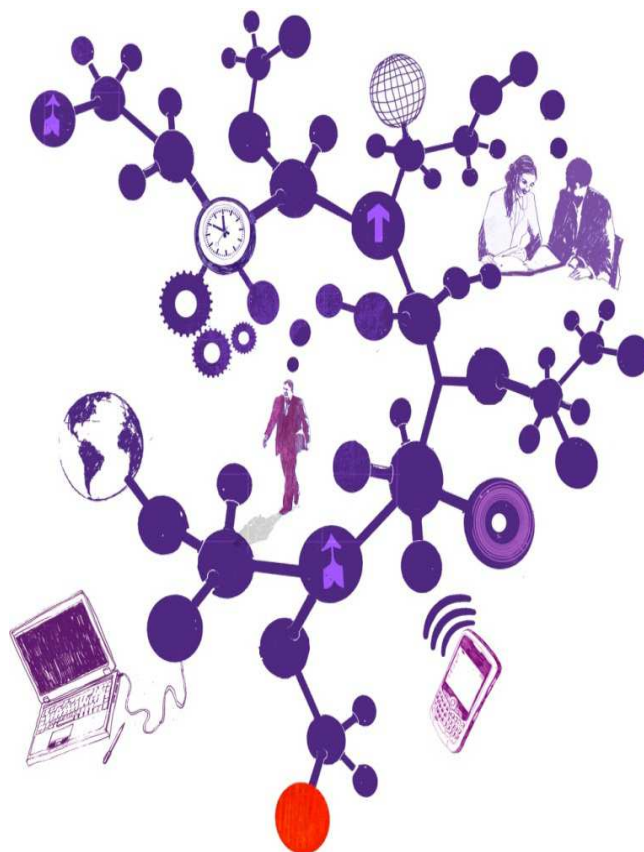
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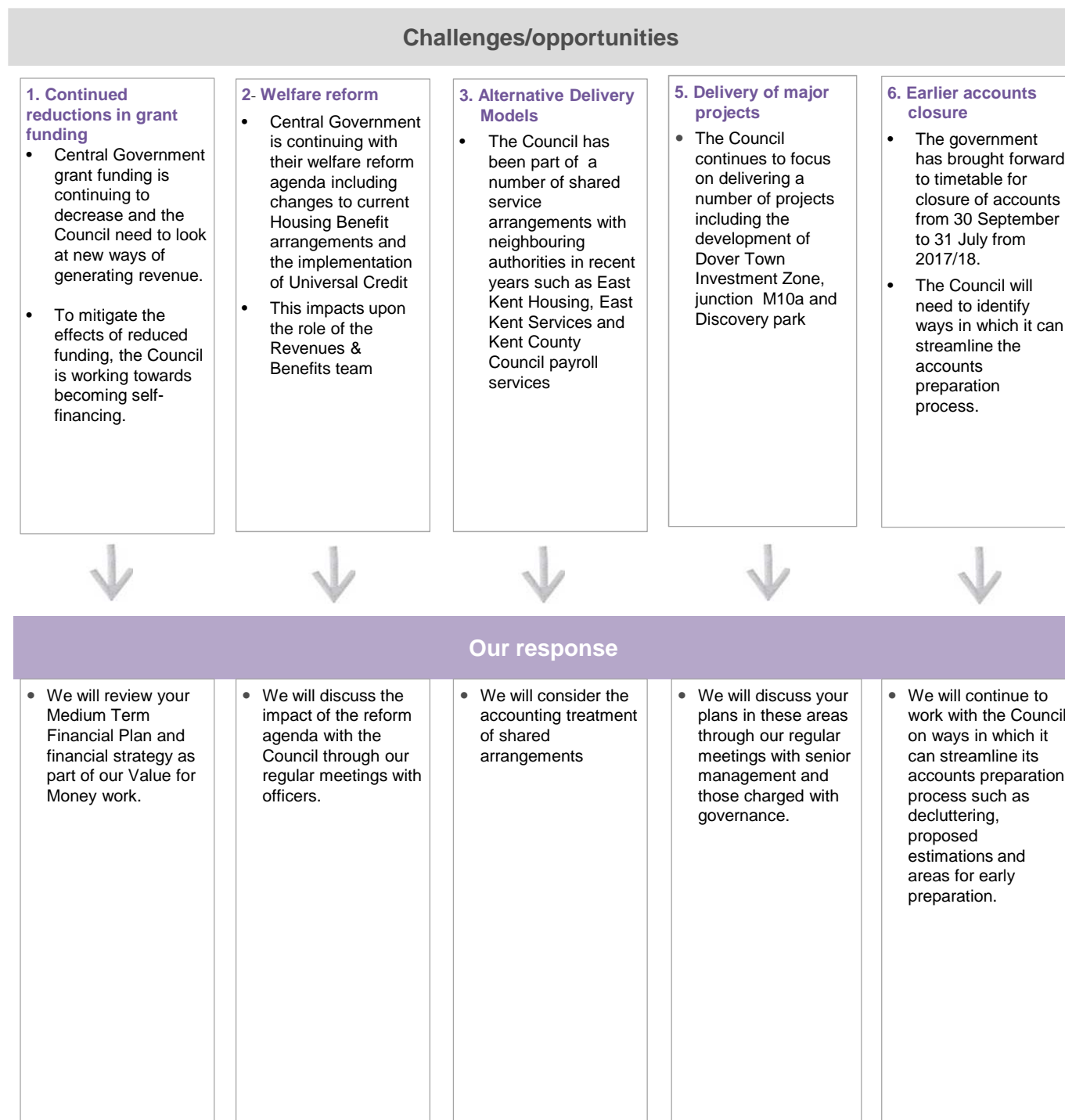
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Understanding your business

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.



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

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10, 11 and 12)

2. Legislation

- The Queen's Speech set out the new governments plans for legislation, many of which will effect local authorities
- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

5. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

6. Other requirements

- The Council is required to submit a Whole of Government accounts pack
- The Council completes grant claims and returns on which audit certification is required

Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and arrangements are accounted for correctly

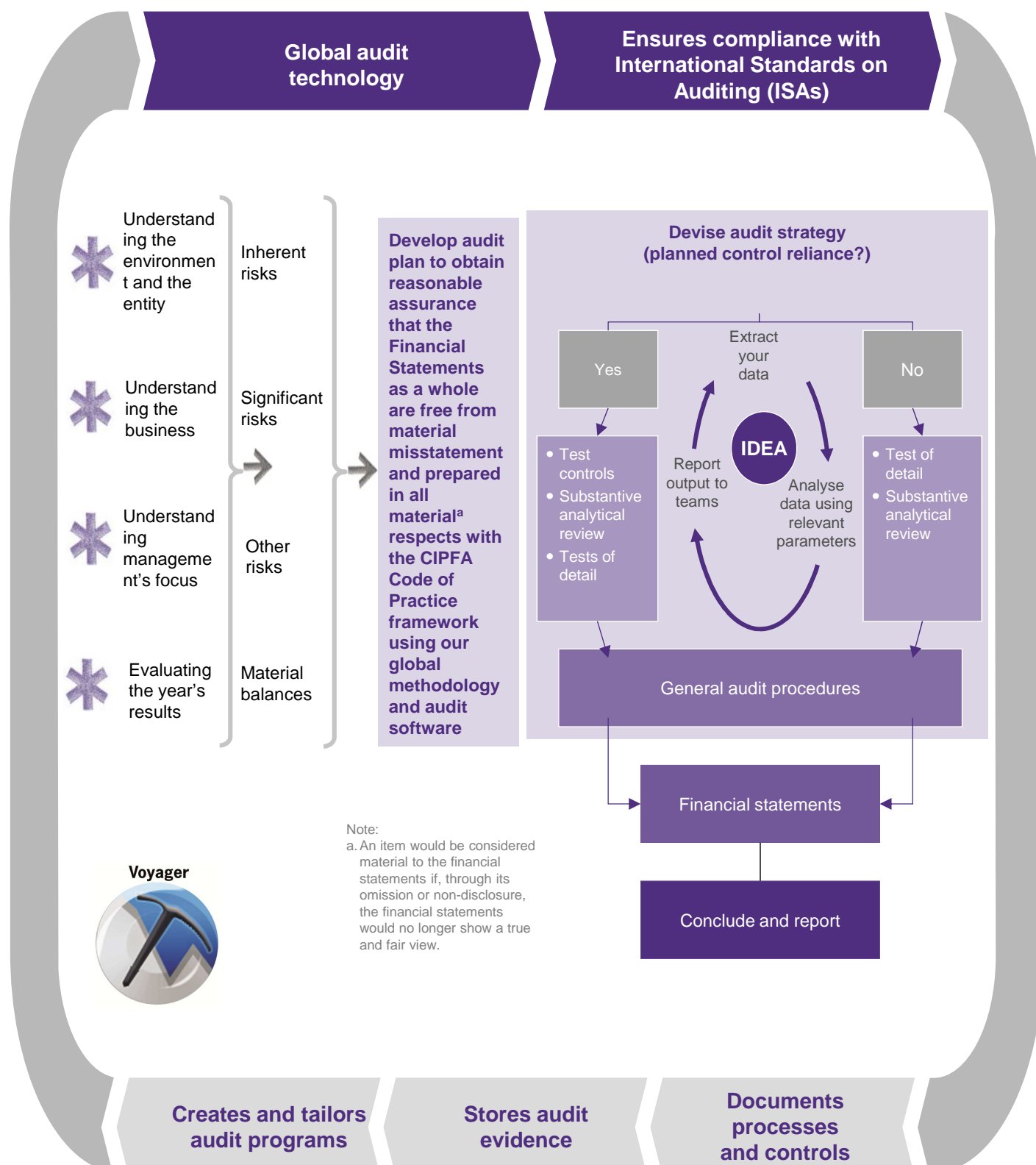
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- 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 review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company has taken over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

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(UK&I) 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 which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA(UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Dover District Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Dover District Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA(UK&I)240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed at interim:</p> <ul style="list-style-type: none">• Assessment of internal controls in place relating to the posting of journal entries <p>Further work planned:</p> <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(UK&I)315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work already performed : <ul style="list-style-type: none">• We have Identified the system controls and walked through the operating expense system.• We have begun early substantive testing on a sample of operating expenses from months 1 – 9 Work planned: <ul style="list-style-type: none">• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces.• Cut off testing to assess whether transactions are recorded in the correct period• Complete substantive testing on a sample of operating expenses for months 10-12• Substantive testing of year end payable balances• Procedures to gain assurance that material goods and services received prior to the year are correctly accrued for
Employee remuneration	Employee remuneration accruals and expenses are understated (Remuneration expenses not correct)	Work already performed : <ul style="list-style-type: none">• We have Identified the system controls and walked through the payroll system.• We have begun the substantive testing of payroll payments for months 1 – 10 Work planned: <ul style="list-style-type: none">• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces• Trend analysis and risk identification for monthly payroll costs• Finish the substantive testing of payroll payments for months 11-12, assessing whether payments are made in accordance with the individual's contract of employment and deductions are correctly calculated• Testing to confirm the completeness of payroll transactions and appropriate cut-off

Other risks identified (Cont.)

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work already performed :</p> <ul style="list-style-type: none"> • We have met with the Revenues and Benefits operations manager to set up the arrangements for the performance of welfare benefits testing. • We have identified the system controls and walked through the housing rents system • We have performed the testing of the Housing Benefit system parameters. <p>Work planned:</p> <ul style="list-style-type: none"> • We will complete the remaining testing required by the DWP which include performance of an analytical review and BEN01 certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation. • Testing the reconciliation of the Housing Benefit system to the general ledger
Housing Rent Revenue Account	Revenue transactions not recorded	<p>Work already performed :</p> <ul style="list-style-type: none"> • We have Identified the system controls and walked through the housing rents system. <p>Work planned:</p> <ul style="list-style-type: none"> • Agreement of housing rents system to the general ledger • Agree general ledger to subsidiary rents ledger (if appropriate) • Rental income cut-off tests • Detailed analytical review and proof in total.

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified; We will

- review the Council's arrangements for securing financial resilience for 2014/15 and for future periods, through review of the medium term financial plan including the assumptions made; and
- review the 2014/15 financial performance.

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:

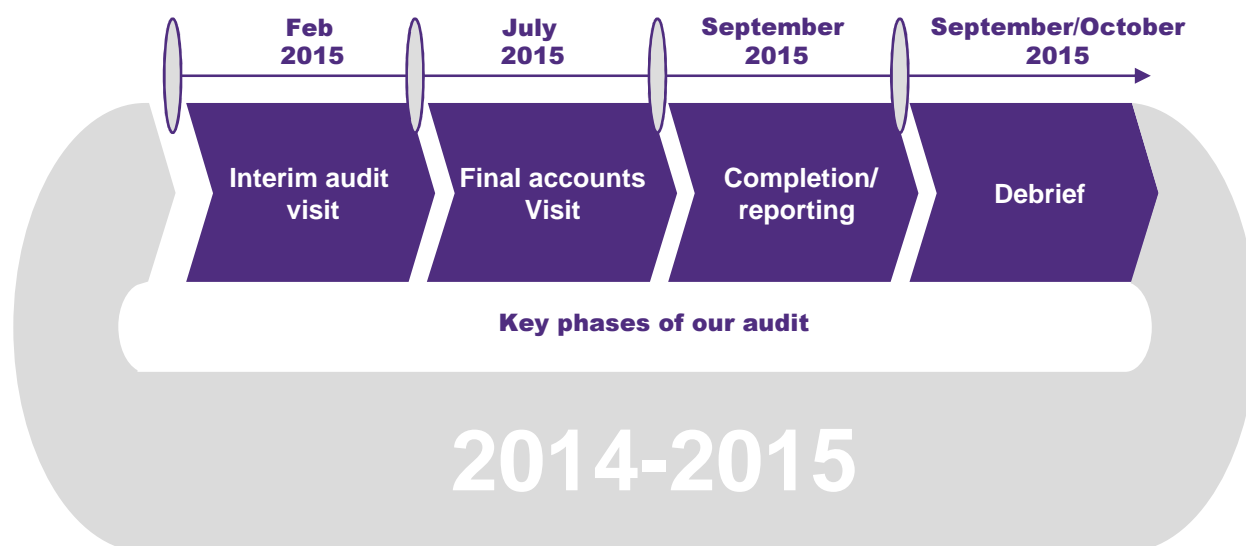
	Work performed and findings	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems 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 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 significant 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>However, a number of minor issues have been identified as raised within the action plan at Appendix 1 to this report.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist performed a high level review of the general IT control environment in 2013/14 with no issues arising. We have updated our understanding of the IT control environment, as part of the overall review of the internal controls system.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
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>However it was noted that there was a deficiency in the authorisation of journals, due to changes in the approach this year. This risk has been minimised by quarterly review of actuals vs budget and by the segregation of duties controls in place.</p> <p>We will be undertaking detailed testing on journal transactions recorded within the financial year, by extracting 'unusual' and large entries for further review.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>See Appendix A for recommendation on journal processes.</p>
Early substantive testing	We have begun early substantive testing of operating expenses for months 1 – 9 and payroll expenditure for months 1-10.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Follow up of 2013/14 account recommendations	<p>We have discussed progress against the recommendations made in our 2013/14 audit findings report.</p> <ul style="list-style-type: none"> - Ensure bank reconciliation up to date - Detailed working papers from valuer to confirm not materially different from fair value for assets not revalued - Review and clear LOBO account variance 	<p>Our work identified that all areas are in progress by the Council. Staff pressures have particularly impacted on the bank reconciliation with the latest reconciliation completed at June 2015 being March 2015.</p> <p>See Appendix A for recommendation on bank reconciliation timing.</p>
Value for money	We have completed the initial risk assessment to inform our Value for Money conclusion.	We will report any significant findings arising from this work to the Audit and Governance Committee in our Audit Findings Report.

Key dates

The audit cycle



Date	Activity
16 February 2015 – 27 February 2015	Planning site visit
07 April 2015 – 17 April 2015	Interim site visit plus early testing
18 June 2015	Presentation of audit plan to the Governance Committee
20 July 2015 – 07 Aug 2015	Year end fieldwork
28 August 2015	Audit findings clearance meeting with Director of Finance
24 September 2015	Report audit findings to those charged with governance
30 September 2015	Sign financial statements opinion

Fees and independence

Audit Fees

	Fees £
Council audit	£71,580
Grant certification	£22,040
Total fees (excluding VAT)	£93,620

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

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

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(UK&I)) 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 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 of Audit Practice.

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

Appendix A - Matters noted at interim

Priority

- High** - Significant effect on control system
- Medium** - Effect on control system
- Low** - Best practice

#	Matters	Priority	Management response	Implementation date & responsibility
1	The Council should ensure the bank reconciliation is kept up to date on a monthly basis and any on-going variances are cleared.	Medium	Due to staffing pressures, there has been a delay in progress to bring the bank reconciliation up-to-date. Work is on-going to achieve this and will be resolved by final accounts time.	Finance July 2015
2	The Council should consider how they assure themselves over journals, with the removal of the requirement to authorise all journals in 2014/15. This includes monthly or quarterly reviews considering exception reporting parameters i.e. large items, those processed by inexperienced or unusual staff members, those processed outside usual hours etc	Medium	The authorisation of all journals was seen as impractical and not working as an effective control.	Finance July 2015



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