



# The Audit Plan for Dover District Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

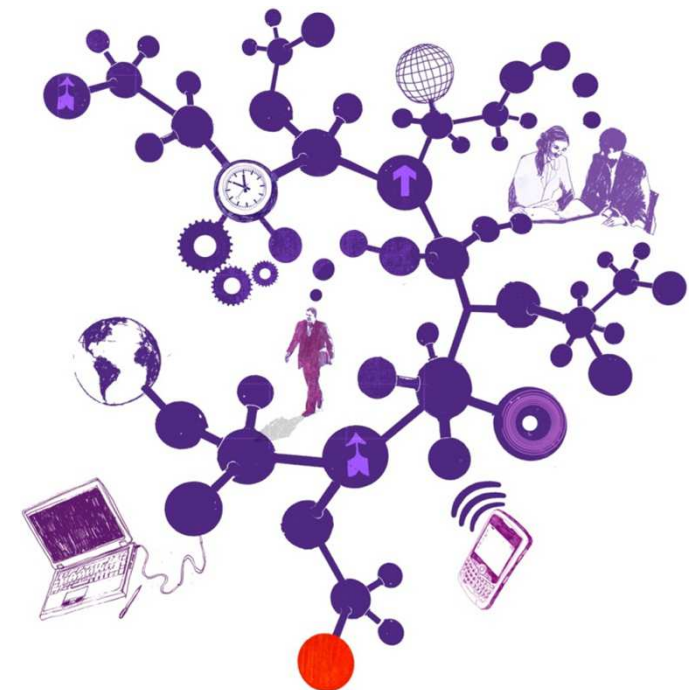
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**Year ended 31 March 2013**

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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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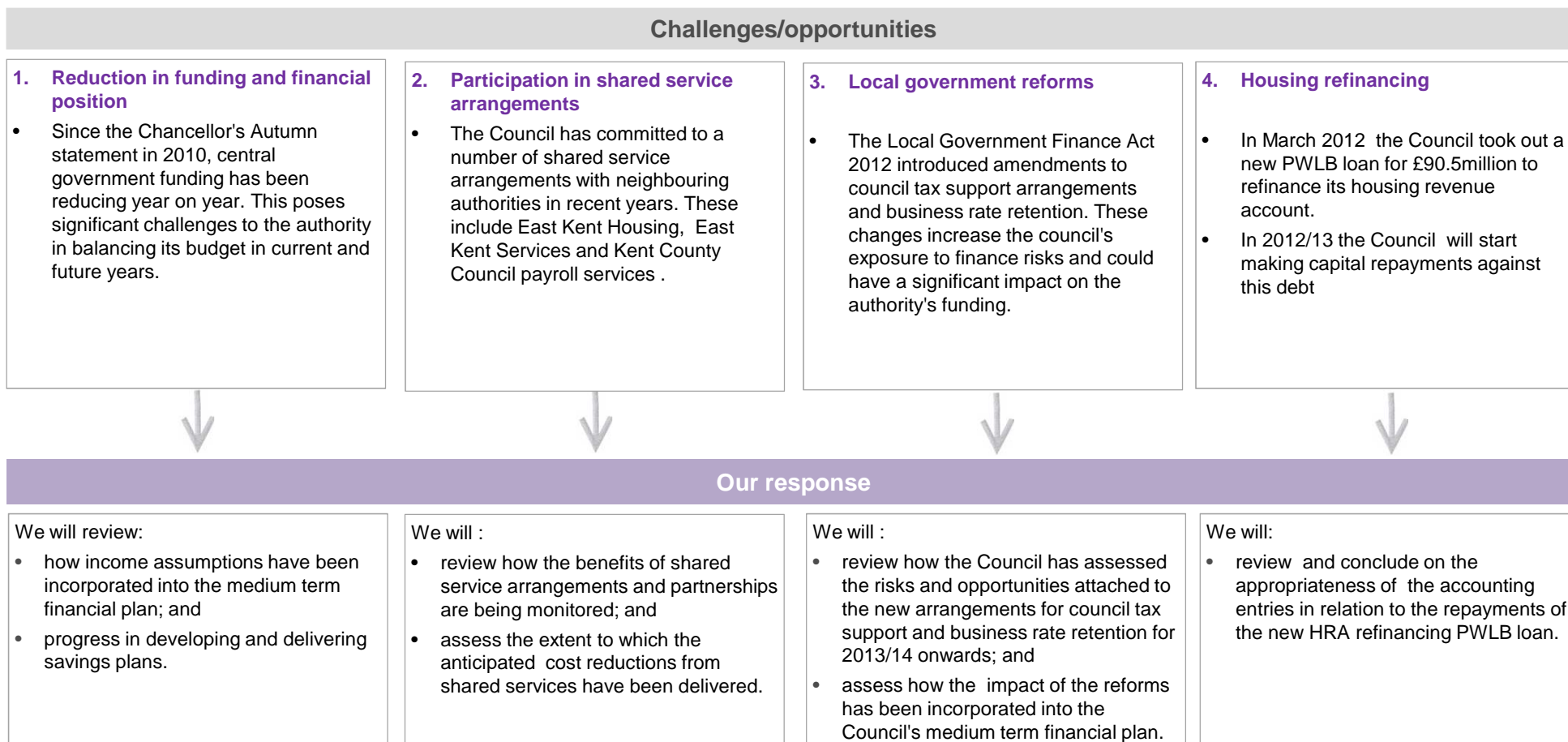
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# Understanding your business

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.



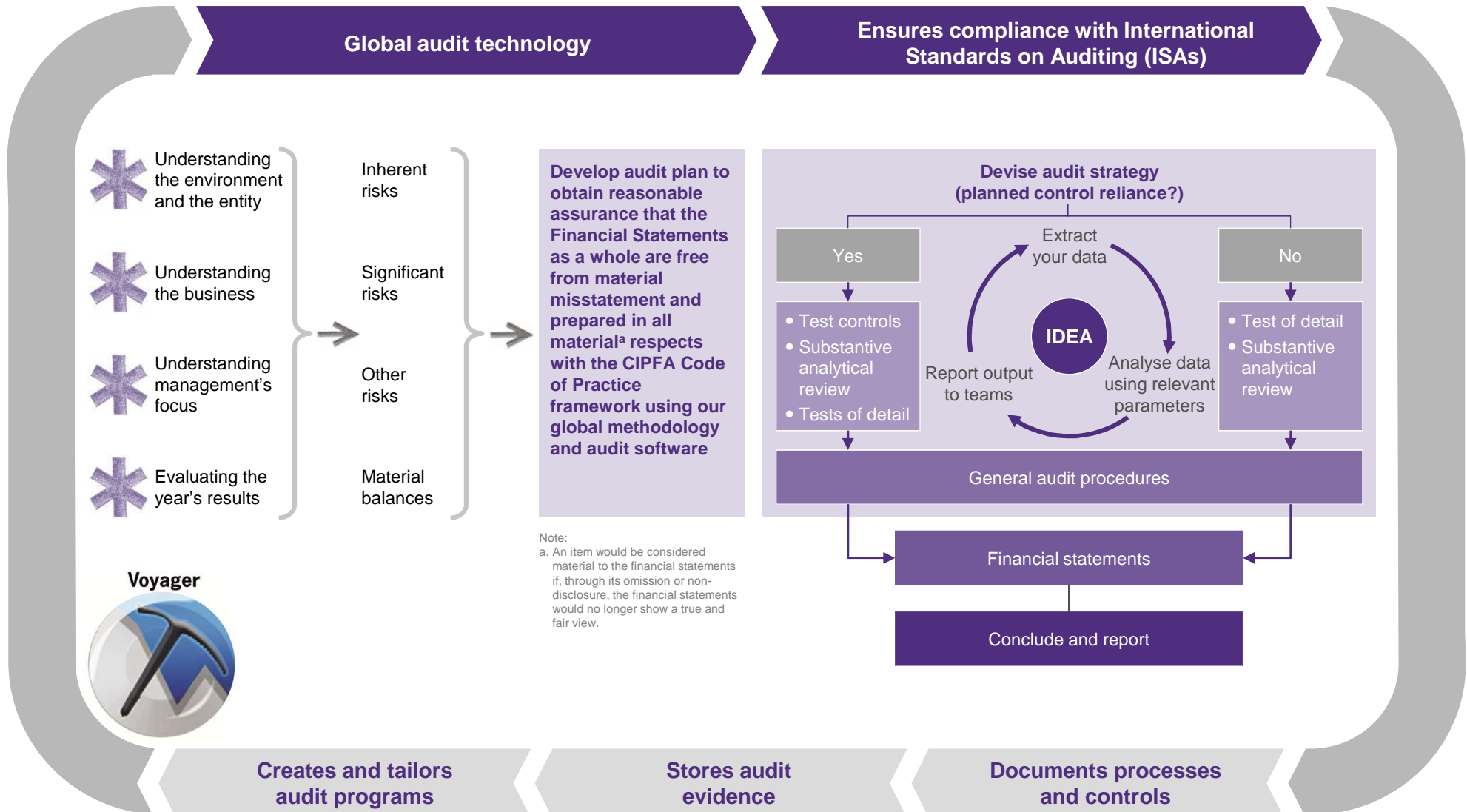
# Developments relevant to your business and the audit

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 and associated guidance.

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Recognition of grant conditions and income</li> <li>• Self financing Housing Revenue Account</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance Act 2012</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <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 its 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 its 2012/13 budget, including the delivery of its savings plans</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>

# 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 or not recorded in the correct period	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses understated	✓
Costs of services – housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – housing revenue income	Yes	HRA	Medium	Other	HRA revenue transactions not recorded	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		×
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	Yes	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		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	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	Low	None		✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	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. We have not identified any additional significant risks.

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>Further 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 completed to date:</b> <ul style="list-style-type: none"><li>• Review of prior year accounting estimates, judgments and decisions made by management</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</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	Operating expenses and creditors understated or not recorded in the correct period	None – interim audit work scheduled for March 2013	<ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Perform attribute testing on material expense streams</li> <li>Assess the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice</li> <li>Cut-off testing</li> </ul>
Employee remuneration	Remuneration expenses not correct or understated	None – interim audit work scheduled for March 2013	<ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Predictive analytical review of employee remuneration</li> <li>Performance of attribute testing on payroll expenses</li> </ul>
Welfare Expenditure	Welfare benefits improperly computed	None – interim audit work scheduled for March 2013	<ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Substantive testing of a sample of benefit claims</li> <li>Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences</li> <li>Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim</li> </ul>
Housing Rent Revenue Account	Revenue transactions not recorded	None – interim audit work scheduled for March 2013.	<ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Predictive analytical review of housing revenue</li> <li>Perform attribute testing on the rental income stream</li> <li>Review for large or unusual transactions</li> <li>Cut-off testing</li> </ul>

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# Group audit scope and risk assessment

ISA 600 requires that 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.

The council, along with Canterbury City Council, Shepway District Council and Thanet District Council, jointly owns East Kent Housing Ltd, an Arms Length Management Organisation (ALMO) which has managed the Council's housing stock since 1 April 2011. Each council holds an equal 25% share. In 2011/12 the Council determined that East Kent Housing was a joint venture and group accounts were not prepared, on the basis that the Council did not consider the impact material to the financial statements.

Component	Level of response required under ISA 600	Risks identified	Planned audit approach
East Kent Housing Ltd	To be confirmed	<p>The council has a 25% interest in the East Kent Housing Ltd. The accounting treatment of this interest is determined to a great extent by the materiality of the Council's share.</p> <p>Dependent on the materiality it may be appropriate to either produce consolidated Group financial statements or disclose the interest in the notes to the accounts.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Review management's assessment of the materiality of the interest in East Kent Housing Ltd</li><li>• Consider whether the accounting treatment adopted by the Council is appropriate</li></ul>

# Interim audit work

## Scope

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

- 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/ planned	Findings/Conclusion
<b>Internal audit</b>	We will review internal audit's overall arrangements against the CIPFA Code of Practice. 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.	Work scheduled for completion February/ March 2013
<b>Walkthrough testing</b>	Walkthrough tests will be completed on the specific transaction cycles and assertions for which we have identified a potential risk of material misstatement to the financial statements. We have identified four risks, as set out in the 'Other Risks' section above: <ul style="list-style-type: none"> <li>- Operating expenses and creditors understated or not recorded in the correct period</li> <li>- Remuneration expenses not correct or understated</li> <li>- Welfare benefits improperly computed</li> <li>- Housing revenue transactions not recorded</li> </ul>	Walkthrough testing scheduled for completion in March 2013
<b>Review of information technology (IT) controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	IT review work planned for completion in April 2013.
<b>Journal entry controls</b>	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	Interim review scheduled for completion in March 2013
<b>Follow up of prior year recommendations</b>	We have reviewed the Council's progress in addressing the recommendations raised in our 2011/12 Annual Governance Report.	Current status of recommendations is set out in Appendix 1.

# 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 for members.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report, separate Financial Resilience report and Annual Audit Letter.

## 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 within tighter budget

## Work to be undertaken

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

Specifically we will review:

- the Council's medium term financial plan including the assumptions made;
- 2012/13 financial performance; and
- progress in development and delivery of savings plans.

# Logistics and our team

## The audit cycle



Date	Activity
18/1/2013	Planning meeting
4/3/2013	Interim onsite work
14/3/2013	Audit plan presented to Governance Committee
22/7/2013	Year end fieldwork commences
TBC	Audit findings clearance meeting
26/9/2013	Governance Committee meeting to report our findings
27/9/2013	Sign financial statements and VfM conclusion
TBC	Issue Annual Audit Letter

## Our team

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# Fees and independence

## Fees

	£
Council audit	70,680
Grant certification	26,450
<b>Total</b>	<b>97,130</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 £
No other services requested	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	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		✓

# Appendix 1

## Action plans from 2011/12 Annual Governance Statement

Recommendation	Agreed action plan	Responsibility and target date	Current status
<b>1 - Valuations</b>	Where interim valuations are used during the accounts production process these should be reviewed when the year end indices become available to identify any material valuation changes which need to be reflected in the financial statements.	Senior Accountant, HRA and Capital 30 April 2013	Outstanding
<b>2 – Soft loan balances</b>	For 2012/13 review and reconcile all soft loan debtor and creditor balances in the financial ledger to the supporting valuation schedules provided by Sector.	Senior Accountant, Revenue and Treasury 31 March 2013	Outstanding
<b>3 – IT access</b>	Review processes to ensure the timely removal of employee access to e-fin when a member of staff leaves the Council's employment.	Software Support Officers, East Kent Services 30 November 2012	The IT procedures for removing e- fin access for staff leavers is understood to have been amended.  Evidence of action taken is awaited.
<b>4 – Financial instruments disclosure</b>	For 2012/13 reassess required financial instruments disclosures to ensure these are more clearly reflected in the financial statements and that the correct balances and disclosures are included.	Senior Accountant, Revenue and Treasury 31 March 2013	Outstanding
<b>5 – Cash flow statement</b>	For 2012/13 ensure that capital and interest debtors and creditors are correctly excluded from cash flows in the cash flow statement.	Financial Services Manager 31 March 2013	Outstanding



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