

The Audit Plan for Dover District Council

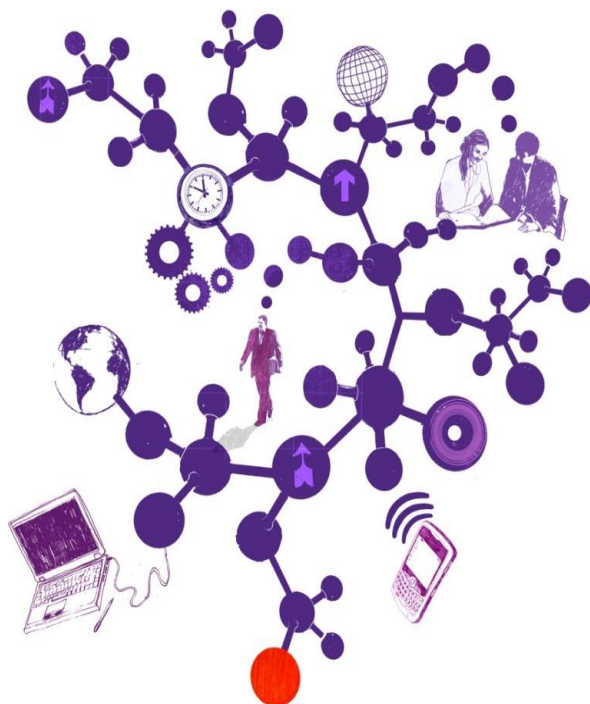
Year ending 31 March 2016

24 March 2016

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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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24 March 2016

Dear Members of the Governance Committee

Audit Plan for Dover District Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Dover District Council, the Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth Olive
Engagement Lead

Chartered Accountants

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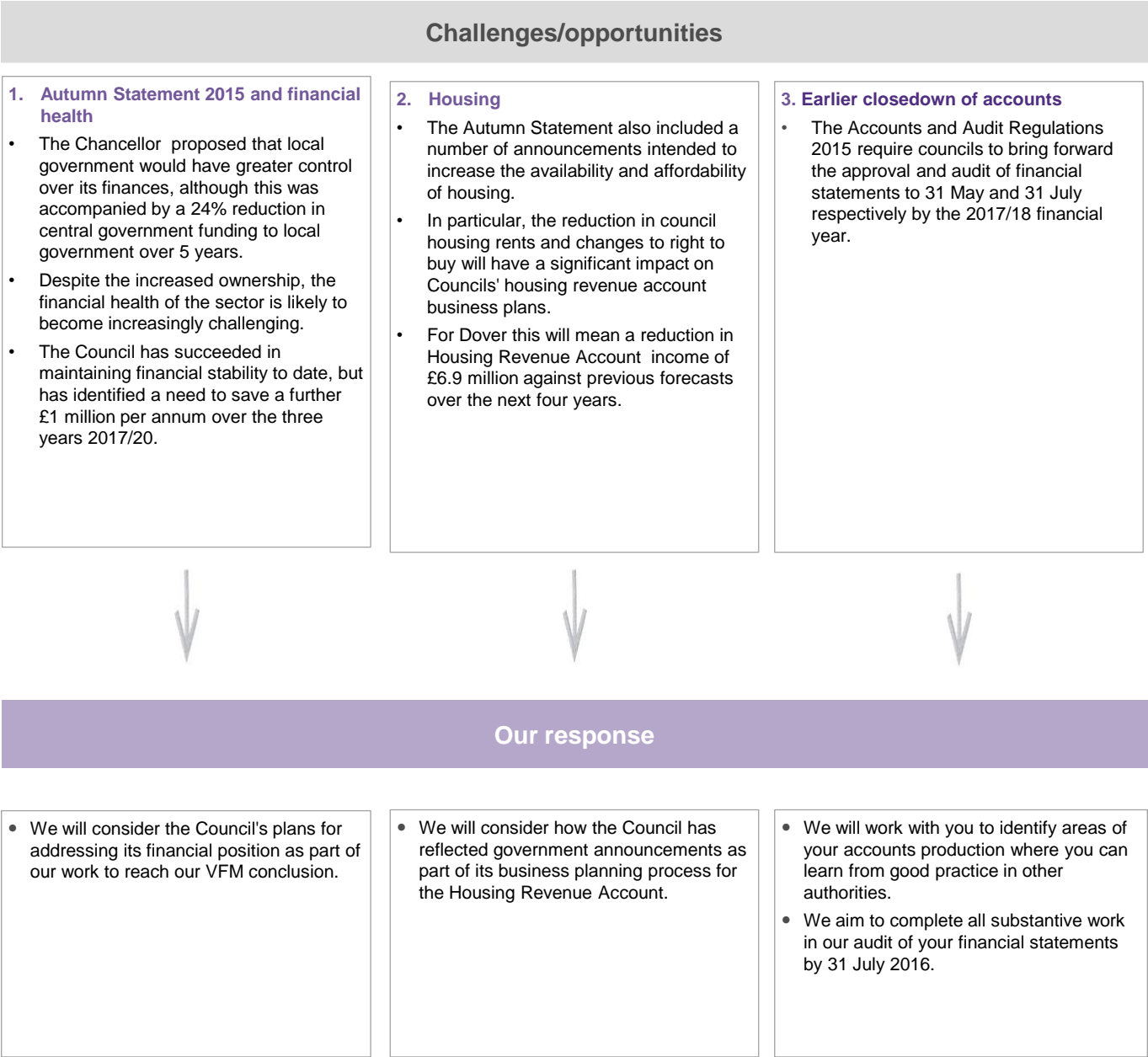
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Understanding your business

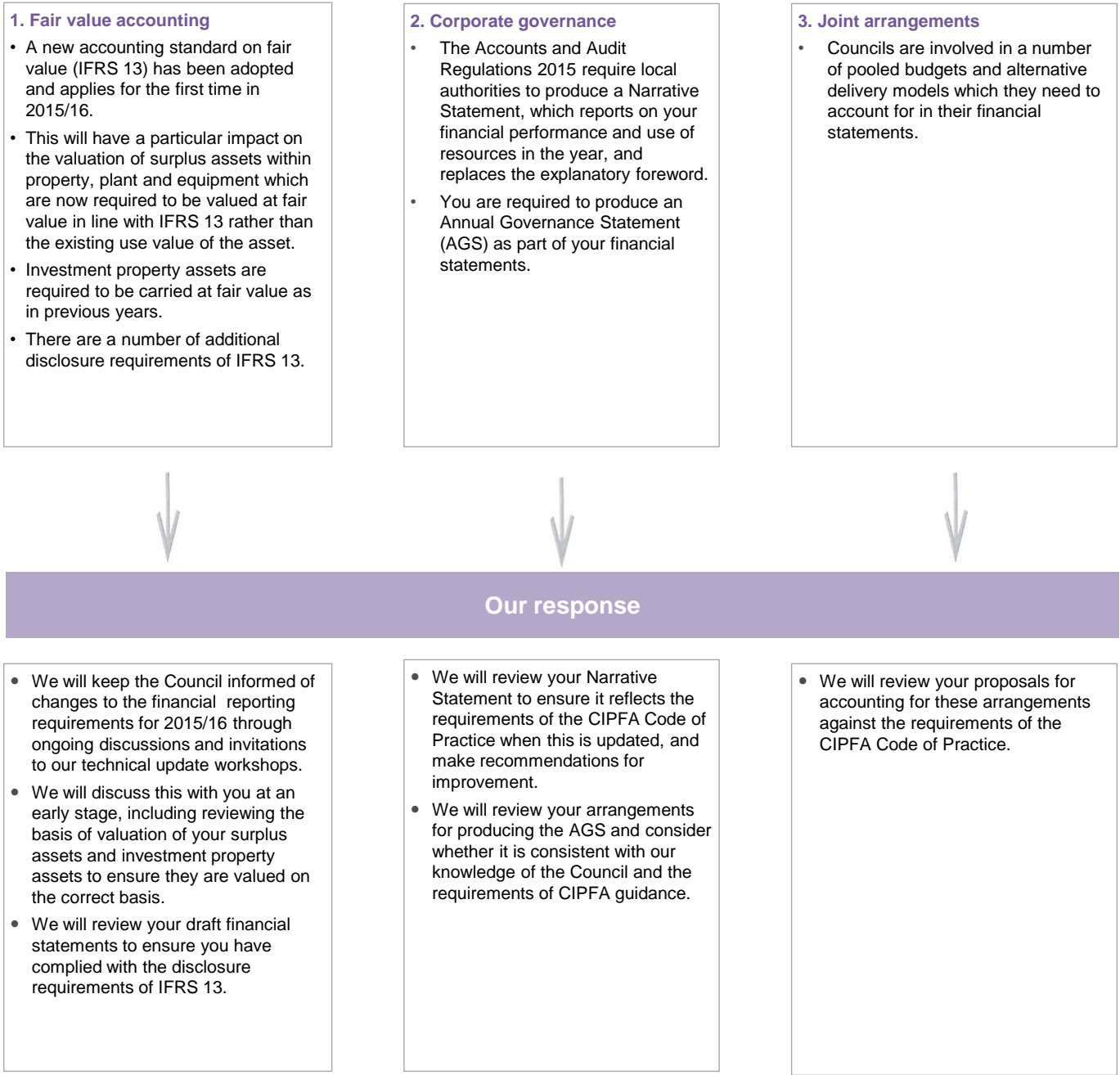
In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



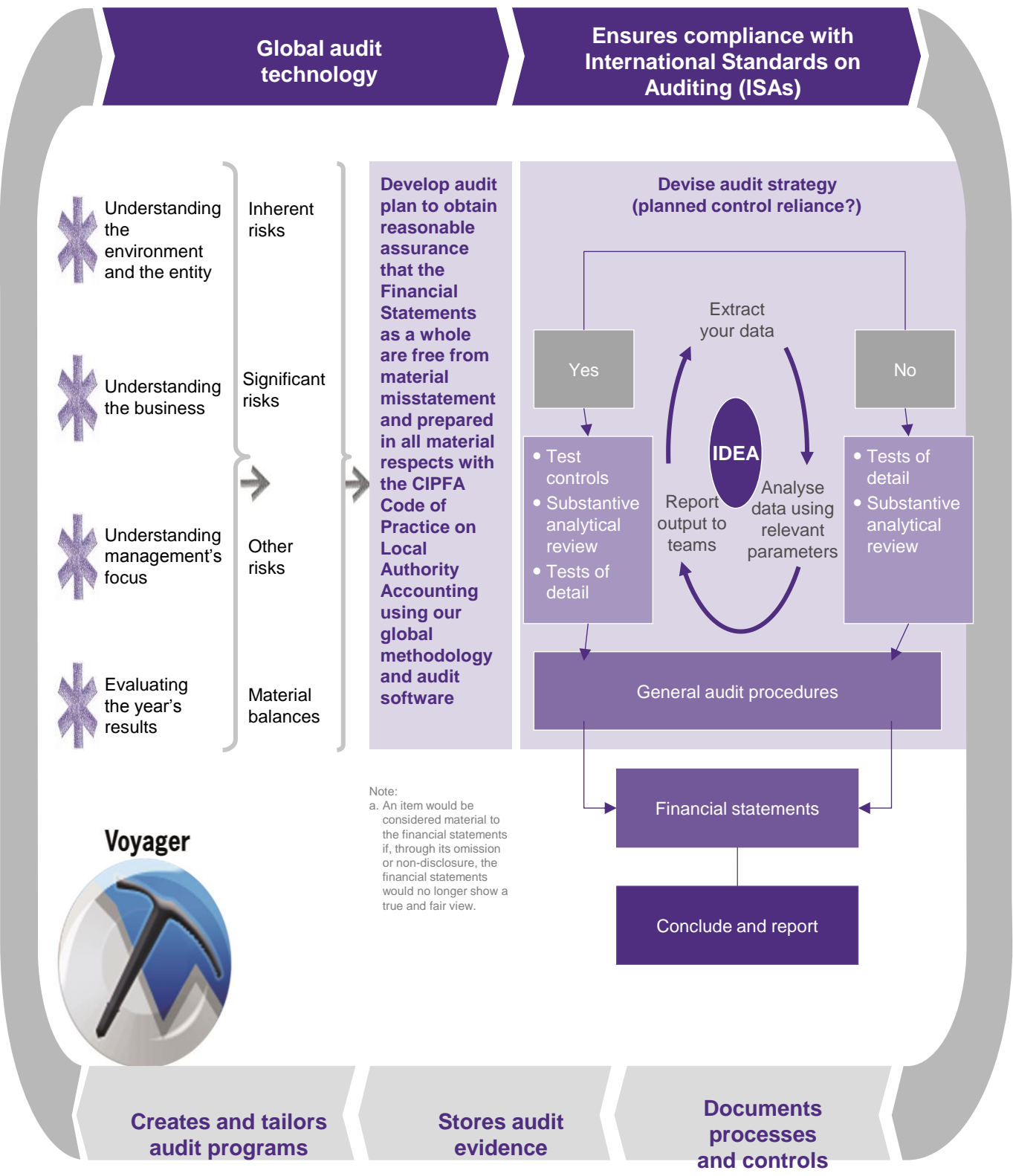
Developments and other requirements relevant to your audit

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



Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,653k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £83k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance / transaction / disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£100k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£50k

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	<p>Under ISA 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 ISA240 and the nature of the revenue streams at Dover 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 Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Assessment of internal controls in place relating to the posting of journal entries• Testing of journal entries from Months 1 -9 (April – December 2015) <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 from M10-12• Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • A walkthrough of the council's processes and controls over this area to gain an understanding of these. • Verification of the existence and ownership of material assets and a sample of those remaining. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the internal revaluation of any Council owned assets and challenge the assumptions made in arriving at the valuation. • Testing of the significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

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 & Ireland) 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)	<p>Work completed to date:</p> <ul style="list-style-type: none">Walkthrough of the council's processes and controls over this area to gain an understanding of these. <p>Further work planned:</p> <ul style="list-style-type: none">Detailed substantive testing will be performed over the operating expenditure incurred by the Council, during the year, including payments made post-period endTrend analysis of the month-on-month spend on Operating Expenses will be performed to identify any months where amounts have been potentially omitted, and explanations will be obtained for these.Testing will also be performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none">Walkthrough of the council's processes and controls over this area to gain an understanding of these. <p>Further work planned:</p> <ul style="list-style-type: none">Trend analysis on the council's Monthly Payroll Figures to identify any months where there are outliers present which may indicate issues with the completeness of the figures included within the GL from the Payroll System.Testing of a sample of employees across the year to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year.

Other risks identified (continued)

Other risks	Description	Audit approach
Property, plant and equipment	Property, plant and equipment activity not valid	<p>Work completed to date:</p> <ul style="list-style-type: none"> • A walkthrough of the council's processes and controls over this area to gain an understanding of these. • Verification of the existence and ownership of material assets and a sample of those remaining. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid..
Pension valuation (IAS 19)	Valuation of the pension fund assets and liabilities have been incorrectly valued	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of the council's processes and controls over this area to gain an understanding of these. • Document our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test the completeness and appropriateness of the data sent to the pension fund by the council. • Review the assumptions used by the actuary in arriving at their valuation for reasonableness. • Test the input of the valuation data from the actuary to the financial statements, and review disclosures of the IAS 19.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Value for Money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Relevance to sub-criteria	Work proposed to address
Medium term financial plan The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.	This relates to the Council's arrangements for: <ul style="list-style-type: none">planning finances effectively to support the sustainable delivery of strategic priorities.	We will review the Council's plans to deliver savings over the course of the medium term financial plan.
HRA Business Plan The forthcoming rent reduction required by central government will reduce HRA income by £6.9 million against previous forecasts over the next 4 years. This will have a significant impact on the HRA Business Plan.	This relates to the Council's arrangements for: <ul style="list-style-type: none">planning finances effectively to support the sustainable delivery of strategic priorities.	We will update our understanding of the Council's HRA business planning.

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	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 have 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 provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</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 (continued)

	Work performed	Conclusion
Review of information technology controls	A high level review of the general IT control environment is in progress, as part of the overall review of the internal controls system, to ensure that IT (information technology) controls have been implemented in accordance with our documented understanding.	Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Walkthrough testing	<p>We have completed walkthrough tests of the Council's 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 by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	Due to difficulties in extracting a complete journals population for our interim testing, we have determined, in discussion with appropriate finance staff, to delay the testing of journals until a full report of journals can be generated at year end.	Our year end testing will entail extracting 'unusual' entries from throughout the year for further review.
Early substantive testing	We have tested operating expenses transactions for the first nine months.	<p>No issues have been identified that we wish to bring to your attention.</p> <p>Further testing will be undertaken in respect of these transactions for the remainder of the year.</p>

Key dates



Date	Activity
February	Planning
March	Interim site visit
24 th March 2016	Presentation of audit plan to Governance Committee
July	Year end fieldwork
September	Audit findings clearance meeting with Director of Finance
29 th September 2016	Report audit findings to those charged with governance (Governance Committee)
29 th September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	71,580
Grant certification	22,040
Total audit 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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

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

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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 issues 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	[From 2014/15 audit] The Council should consider arrangements required to bring forward the timescale for closure of the financial statements, in readiness for statutory early closure in 2017/18.	High	The 2015/16 closedown is being trialled with a target completion date of 31st May to assess the impact of earlier closing and enable changes to processes to be implemented in sufficient time for the statutory change.	May 2016 Head of Finance
2	[From 2014/15 audit] The Council should undertake a review of the underlying home improvement loan records to ensure they provide comprehensive supporting information.	Medium	Reconciliation work has been undertaken between the Housing team & Accountancy to check that the records agree. The final quarter reconciliation will be undertaken as part of the year end processes.	May 2016 Head of Finance
3	Ensure that a complete journals population is available for interim testing, to facilitate an earlier audit opinion in future years.	Medium	Work is being undertaken with EKS ICT to obtain the relevant reports for future years.	May 2016 Head of Finance



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