

The Audit Plan for Thanet District Council

Year ended 31 March 2015

March 2015

Darren Wells

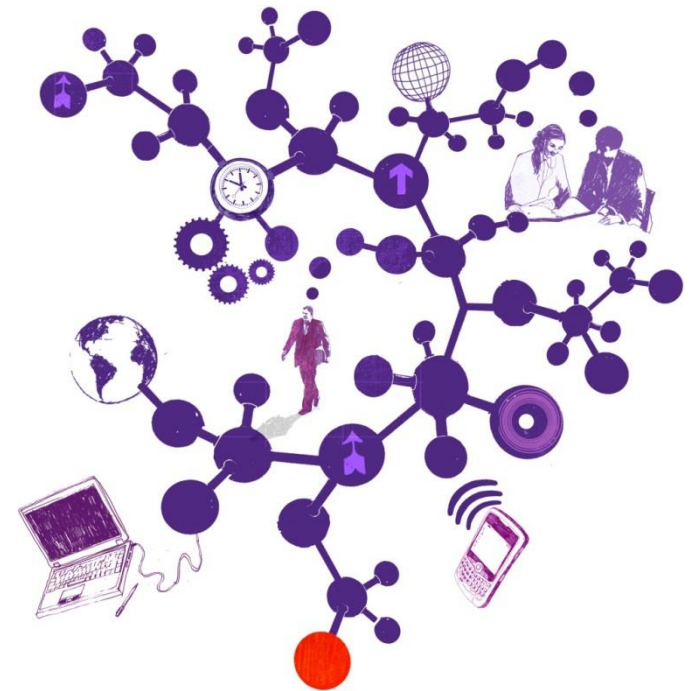
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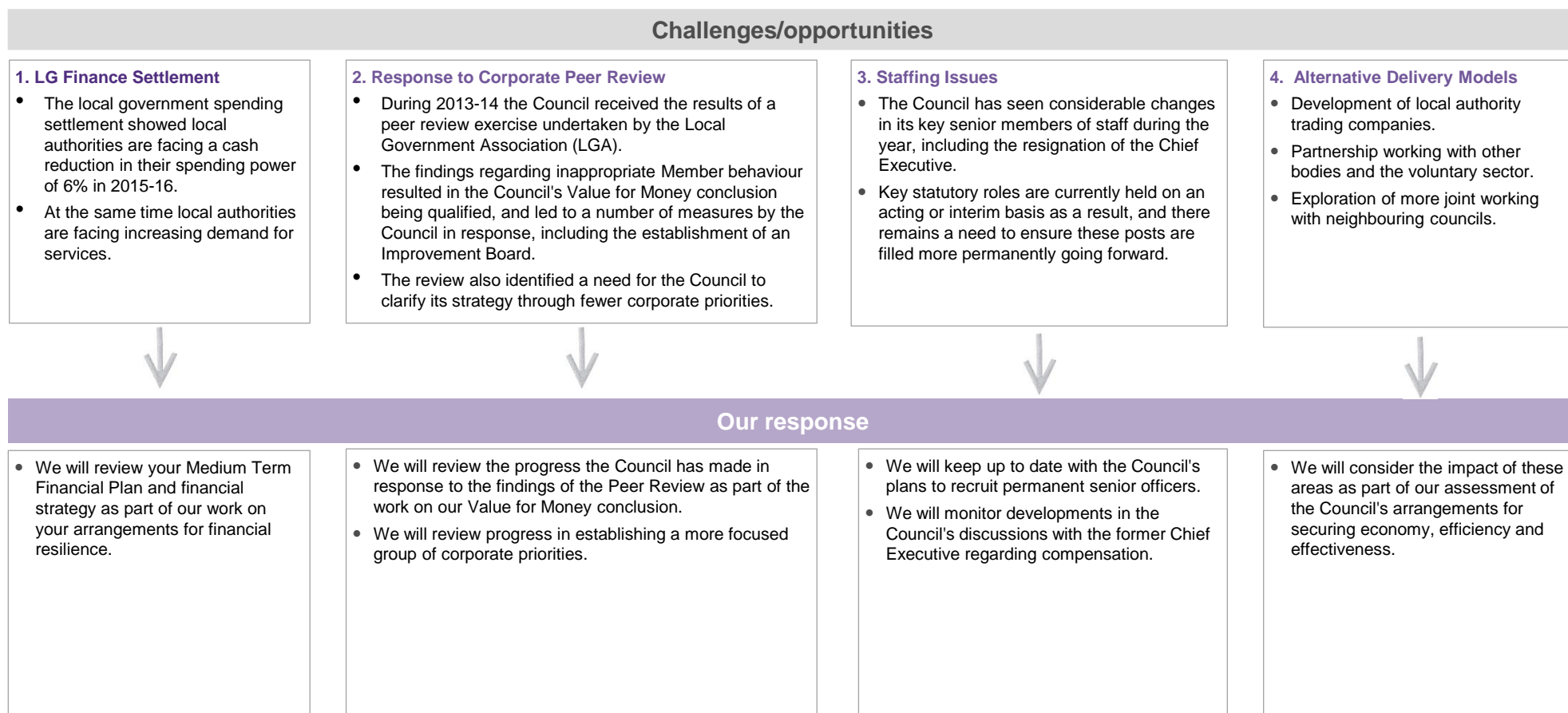
Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim work
7. Value for Money
8. Key dates
9. Fees and independence
10. Communication of audit matters with those charged with governance

1. 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.



2. 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. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

3. Financial Pressures

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

4. 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

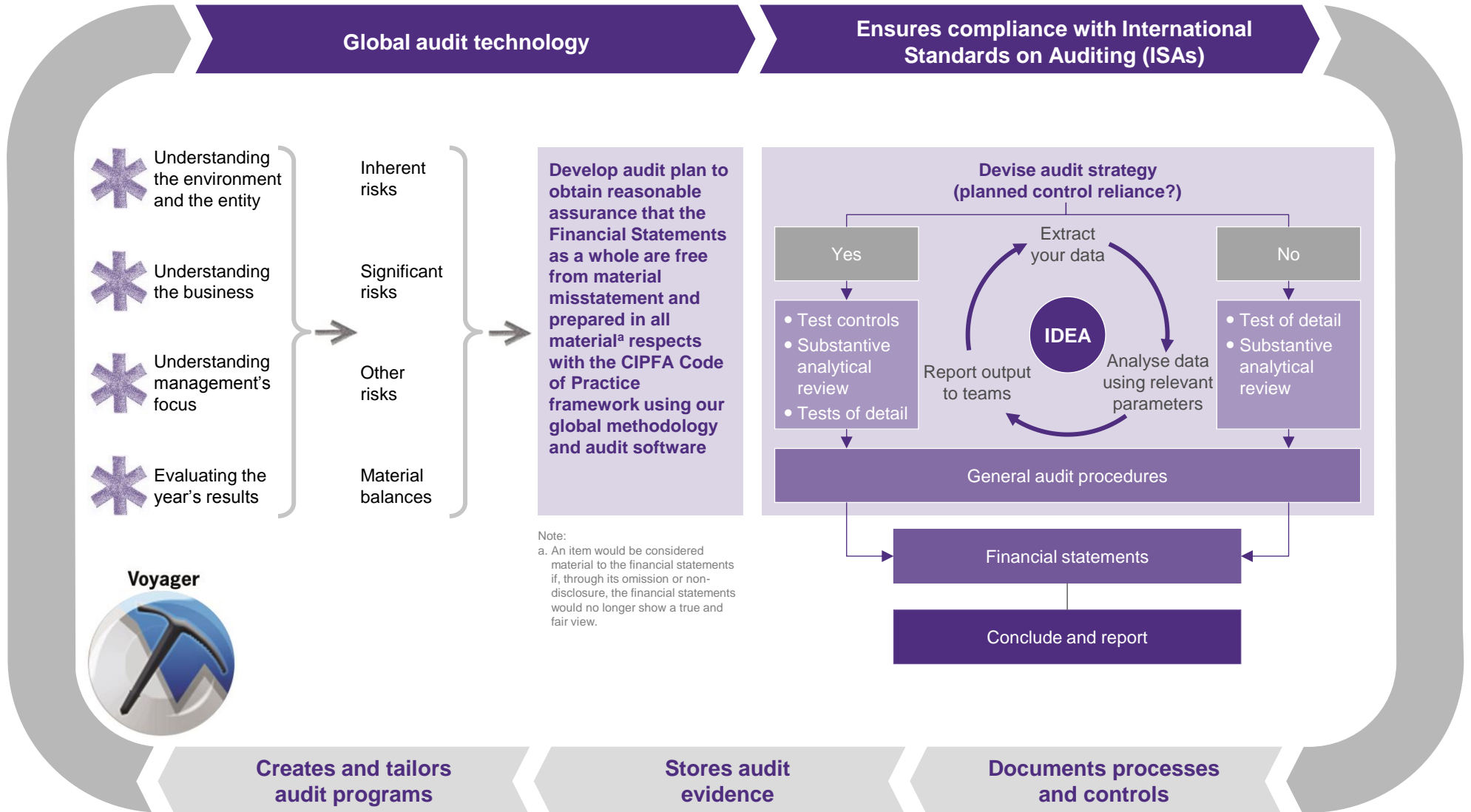
- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly, in particular for the interest in East Kent Housing

- 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 reporting and performance against the 2014/15 budget, including consideration of performance against the savings plan.
- We will undertake a review of the Council's 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 will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

3. Our audit approach



4. 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 Thanet 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 Thanet District Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption 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"> • Testing of journal entries for Months 1 to 9 <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 for Months 10 to 12 • Review of unusual significant transactions

5. 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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> • We have undertaken a walkthrough of the Council's processes and controls over this area to gain an understanding of these. • A high level trend analysis will be performed on the Council's monthly expenditure totals to ensure all applicable amounts have been recorded within the Accounts. • We will test a sample of expenditure incurred by the Council during the year and agree this back to supporting documents. • Testing will also be performed on payments made post-period end to identify any items which have been potentially omitted from the Accounts. • We will also ensure that amounts remaining outstanding at year end have been correctly recorded as Creditors within the Accounts.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> • We will undertake a walkthrough of the Council's processes and controls over this area to gain an understanding of these. • A high level trend analysis will be performed on the monthly employee remuneration totals to provide assurance over the completeness of the figures included within the Accounts at year end. • Testing on a sample basis of the employee remuneration expenditure incurred during the year, including agreement back to source documents. • Work will also be performed on the Council's Pension Costs, including a review of the report received from the Scheme Actuary, Barnett Waddingham.
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> • We have undertaken a walkthrough of the Council's processes and controls over this area to gain an understanding of these. • An analytical review will be performed on the figures included within the draft Housing Benefit Subsidy Claim to identify any significant variances requiring explanation. • Detailed testing will be performed on the expenditure included within the draft HB Subsidy Claim, in line with the HBCOUNT methodology provided by the Audit Commission. • We will also select a sample of Local Council Tax Support cases to ensure expenditure on these cases has been correctly calculated for inclusion within the Accounts.

6. 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 issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>To date our work has not identified any weaknesses that impact on our audit approach. Our walkthrough of the Council's Employee Remuneration system is in progress, and an update will be provided should any issues be identified.</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 that are likely to adversely impact on the Council's financial statements</p>

6. Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>We have 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 that are likely to adversely impact on the Council's financial statements.</p>
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 that 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 nine 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>The work performed to date hasn't identified any material weaknesses or issues that we would like to bring to your attention. Testing of the remaining months of the year will be performed as part of our year end visit.</p>
Early substantive testing	<p>To date, we have performed early substantive testing in the following areas:</p> <ul style="list-style-type: none"> - Review of Housing Benefit System Parameters - Trend Analyses on Income, Expenditure and Employee Remuneration costs for the first nine months of the year - Agreement of Council Tax Precepts - Testing of Capital Additions. 	<p>To date, no issues have been identified from the work completed. Some areas remain outstanding, and will be followed up as part of our work at year end.</p>

7. 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:

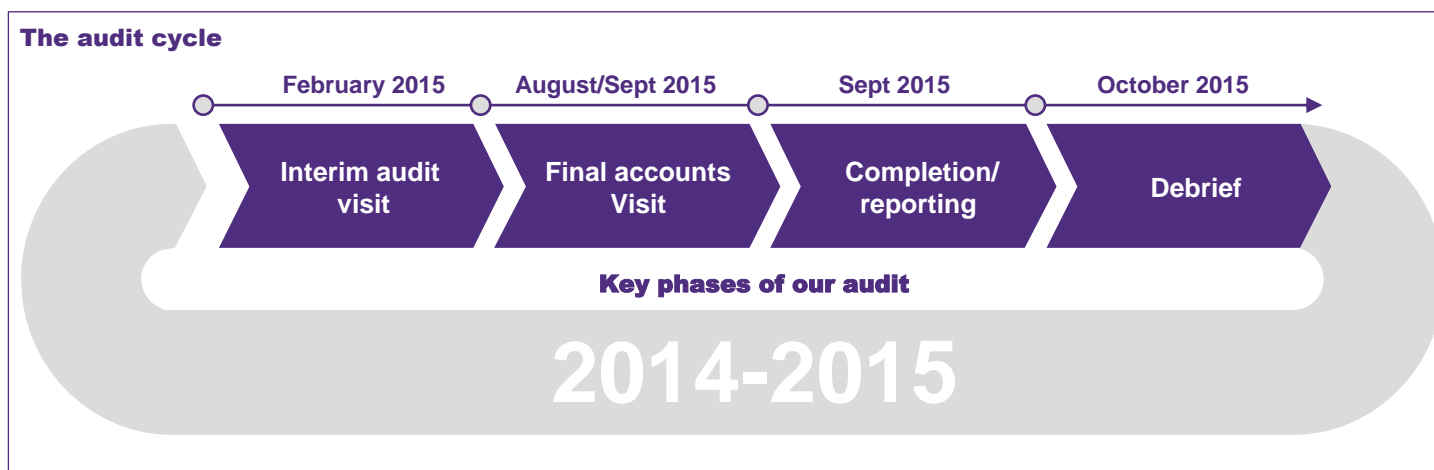
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate 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 progress in responding to the issues raised in the April 2014 LGA peer review on Member behaviour and setting corporate priorities.
- We will review the Council's reporting and performance against the 2014/15 budget, including consideration of performance against the savings plan.
- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.
- We will consider the impact of alternative delivery models part of our assessment of the Councils arrangements for securing economy, efficiency and effectiveness.
- We will review progress in plans to recruit permanent senior officers over the coming months.
- We will monitor developments in the Council's discussions with the former Chief Executive regarding compensation.

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.

8. Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
17 March 2015	Presentation of audit plan to Audit Committee
August to September 2015	Year end fieldwork
Mid September 2015	Audit findings clearance meeting with Director of Corporate Resources
Late September 2015	Report audit findings to those charged with governance (Governance and Audit Committee)
By 30th Sept 2015	Sign financial statements opinion

9. Fees and independence

Fees

	£
Council audit	88,395
Grant certification	35,280
Total fees (excluding VAT)	123,675

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

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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.

10. 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.

	Audit plan	Audit findings
Our communication plan		
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		✓



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