



The Audit Plan for Thanet District Council

Year ending 31 March 2016

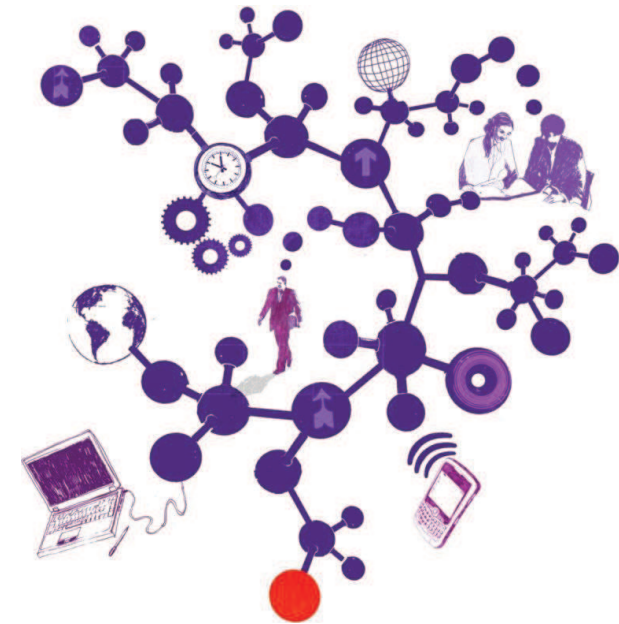
15 March 2016

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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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15 March 2016

Dear Members of the Governance and Audit Committee

Audit Plan for Thanet 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 Thanet District Council, the Governance and Audit 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

Darren J Wells
Engagement Lead

Chartered Accountants

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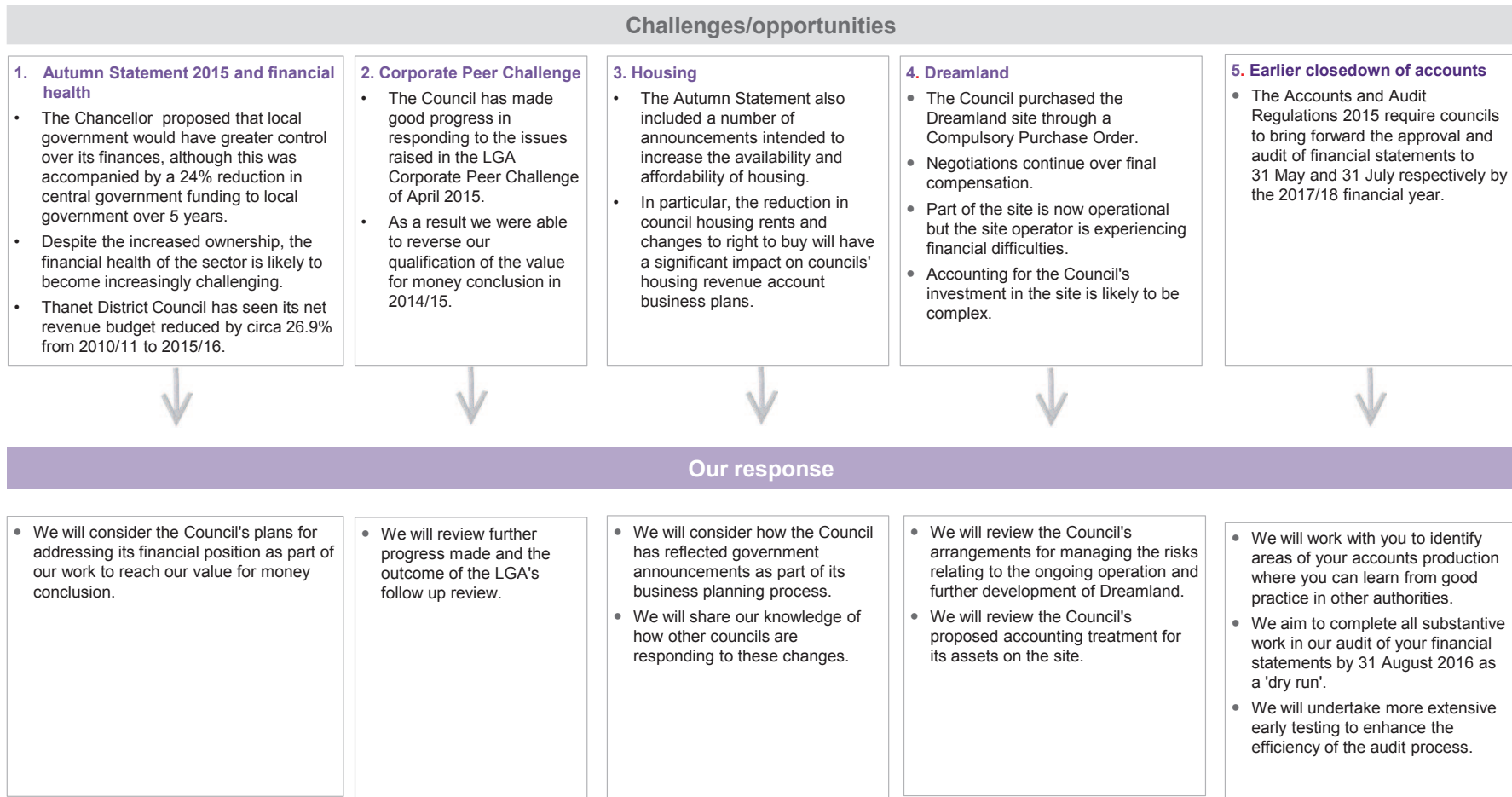
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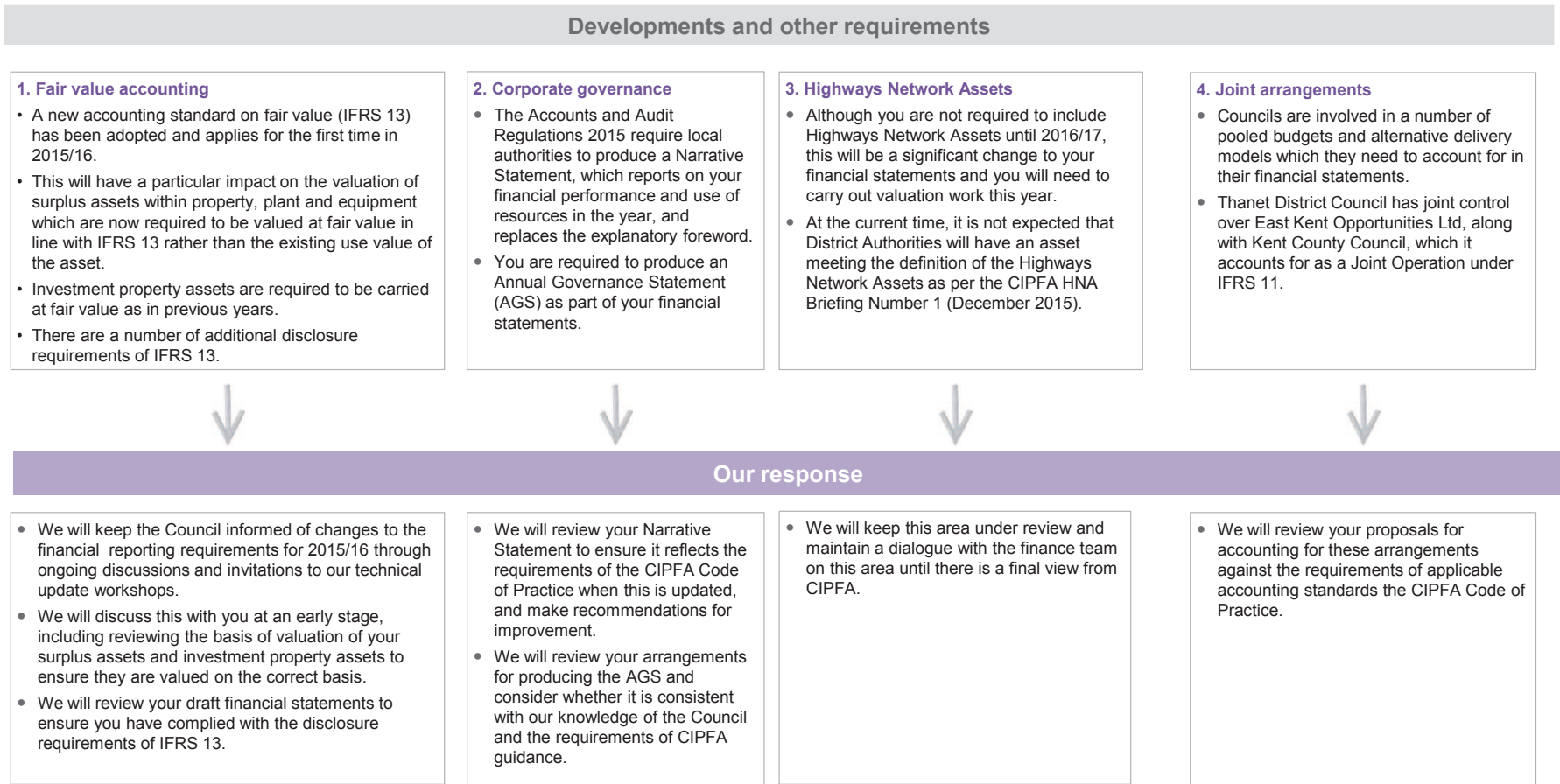
Understanding your business

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.

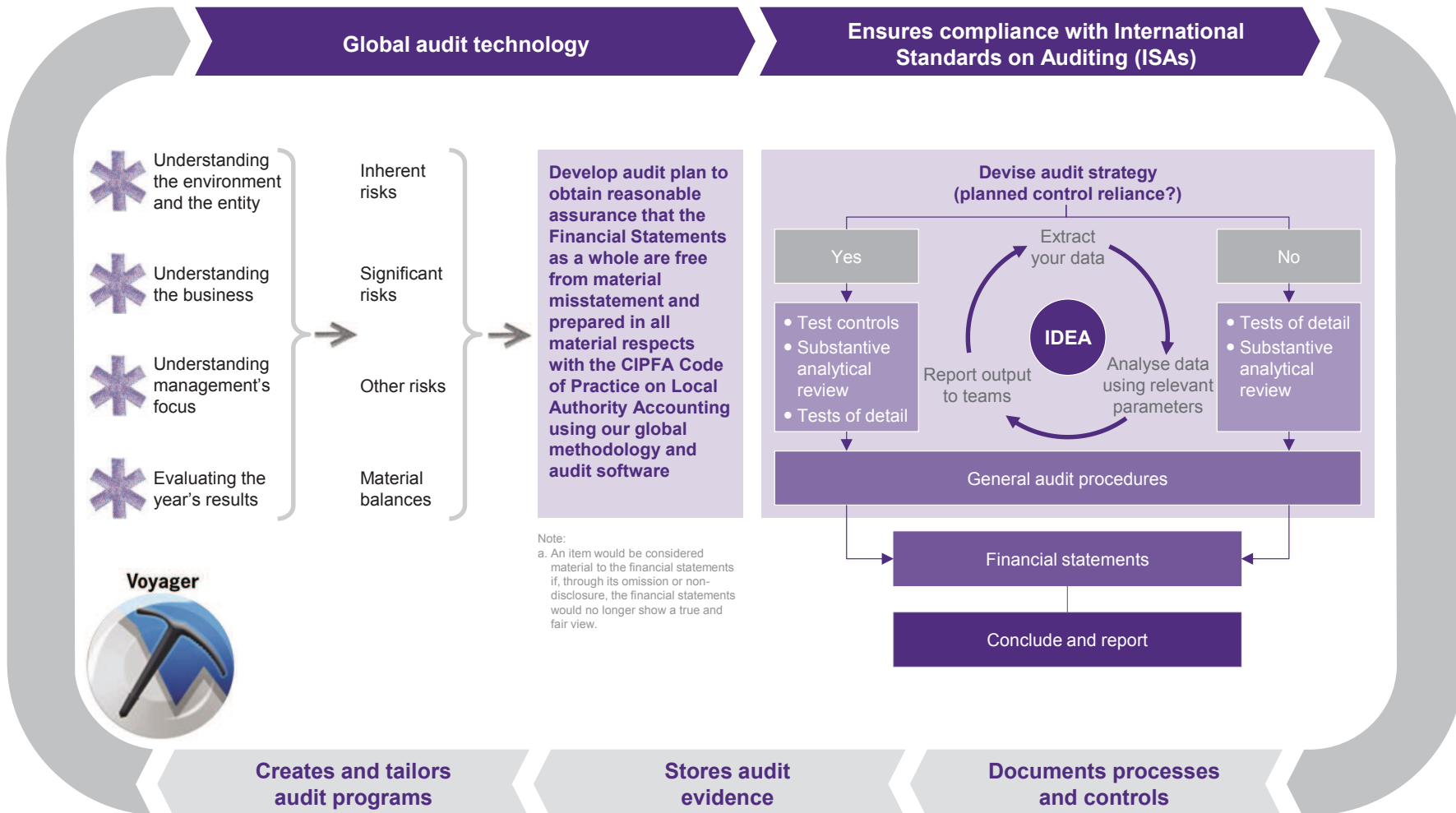


Developments and other requirements relevant to your audit

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.



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 £2,699k (being 2% of gross revenue expenditure in 2014/15). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £2,699k (being 2% of gross revenue expenditure in 2014/15).

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 £134k.

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 not identified any items where separate materiality levels are appropriate.

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	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<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 1 to 12 • 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 & Ireland) 315).

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"> • We have undertaken a walkthrough of the Council's processes and controls over this area to gain an understanding over them. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will perform a review of the year-end reconciliation of your Accounts Payable system to the General Ledger to provide assurance over the completeness of operating expenditure recorded within the Financial Statements. • Sample testing will be performed on post-period end payments to identify any items which have been potentially omitted from the Financial Statements. • In year expenditure incurred by the Council will be substantively tested. • We will ensure that amounts remaining outstanding at year end have been appropriately recorded as liabilities within the Financial Statements.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <p>We have undertaken a walkthrough of the Council's processes and controls over this area to gain an understanding over them, however, there are some elements of the walkthrough still to be completed.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • We will perform a review of the year-end reconciliation of the payroll system to the General Ledger. • 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 Financial Statements. • Sample testing will be performed on the employee remuneration expenditure incurred during the year by the Council, including agreement back to relevant supporting documentation.

Other risks identified (continued)

Other risks	Description	Audit approach
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>Work completed to date:</p> <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 over them, however, there are some elements of the walkthrough still to be completed. <p>Further work planned:</p> <ul style="list-style-type: none"> Detailed testing will be performed on the expenditure included within the draft Housing Benefit Subsidy claim. We will perform sample testing of Local Council Tax Support cases to ensure expenditure in relation to these cases has been correctly calculated for inclusion with the Financial Statements. A high level analytical review will be performed on the figures within the draft Housing Benefit Subsidy claim in order to identify any significant variances requiring explanation.
Valuation of Pension Fund Net Liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. We will review the consistency of the pension fund asset and liability disclosures in the notes to the financial statements with the actuarial report from your actuary.

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:

- 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 Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require 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 National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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 completed 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.

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
<p>Dreamland project The Council has had to increase the budget for this major regeneration project by £1.2m across 2015/16 and 2016/17, against a background of significant risk with the site operator having gone into administration.</p>	<p>This relates to the Council's arrangements for:</p> <ul style="list-style-type: none"> • understanding and using appropriate cost and performance information to support informed decision making and performance management • managing assets effectively and procuring supplies and services effectively to support the delivery of strategic priorities. 	<p>We will review the Council's arrangements for managing the Dreamland project to ensure it meets its objectives and is delivered within budget.</p>
<p>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.</p>	<p>This relates to the Council's arrangements for:</p> <ul style="list-style-type: none"> • planning finances effectively to support the sustainable delivery of strategic priorities. 	<p>We will review the Council's plans to deliver savings over the course of the medium term financial plan.</p>
<p>HRA Business Plan The forthcoming rent reduction required by central government will reduce HRA income by £4.5 million over the next 4 years. This will have a significant impact on the HRA Business Plan..</p>	<p>This relates to the Council's arrangements for:</p> <ul style="list-style-type: none"> • planning finances effectively to support the sustainable delivery of strategic priorities. 	<p>We will update our understanding of the Council's HRA business planning.</p>
<p>Corporate Peer Challenge The Council has done much to address the findings of the LGA Corporate Peer Challenge in April 2014 regarding Member behaviour. This work needs to continue to ensure there is no recurrence of these issues.</p>	<p>This relates to the Council's arrangements for:</p> <ul style="list-style-type: none"> • acting in the public interest, through demonstrating and applying the principles and values of good governance. 	<p>We will review the outcome of the forthcoming follow up to the Corporate Peer Challenge and the Council's continuing progress in addressing the findings of the original report.</p>

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.

Results of interim audit work

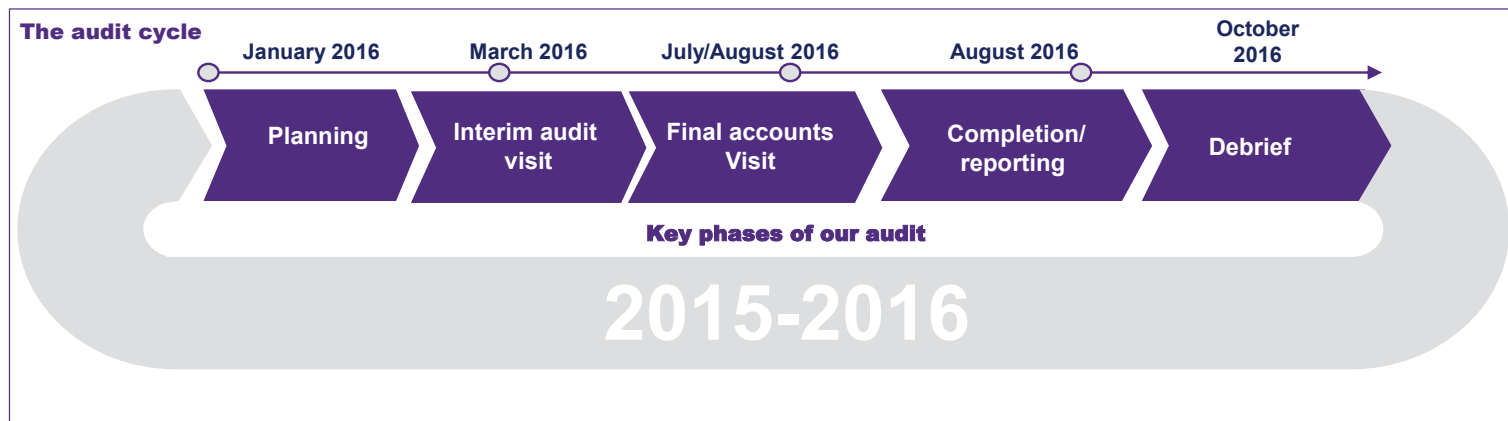
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	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	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements. We have however identified scope for minor improvements which we will include in the final action plan in our year end report.</p>
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, including; Employee Remuneration, Operating Expenditure and Welfare Expenditure.</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>	<p>To date our work has not identified any weaknesses which impact on our audit approach. Our walkthrough of the Council's Employee Remuneration system and Welfare benefits system is in progress. An update will be provided should any issues be identified.</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 which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will undertake detailed journals testing on journal transactions recorded for the first eleven months of the financial year alongside our early substantive testing, by extracting 'large' and 'unusual' entries for further review.</p>	<p>We will report the findings of this work as part of our Audit Findings Report.</p>
Early substantive testing	<p>We will undertake early testing of payroll expenditure, PPE Additions and journal transactions in late March 2016.</p>	<p>We will report the findings of this work as part of our Audit Findings Report.</p>

Key dates



Date	Activity
January 2016	Planning
14 March – 18 March 2016	Interim site visit
15 March 2016	Presentation of audit plan to Governance and Audit Committee
August 2016	Year end fieldwork
Late August 2016	Audit findings clearance meeting with Director of Corporate Resources
Late August 2016	Report audit findings to those charged with governance (Governance and Audit Committee)
By 30 September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	66,296
Grant certification	20,770
Total audit fees (excluding VAT)	87,066

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'.

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• Assessment of the Empty Property Intervention Programme (Grant funding from HCA)	17,990

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 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

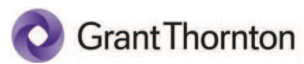
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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		✓



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