

The Audit Plan for Worcestershire County Council

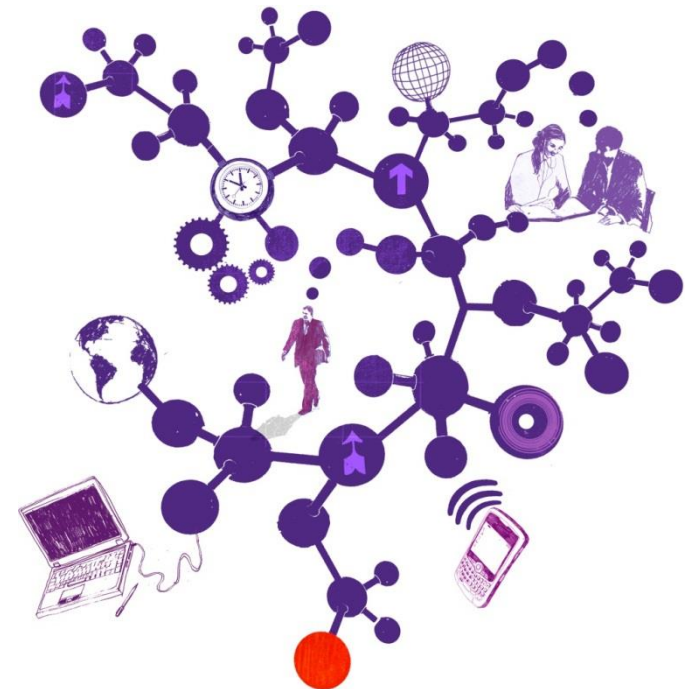
Year ended 31 March 2015

20 March 2015

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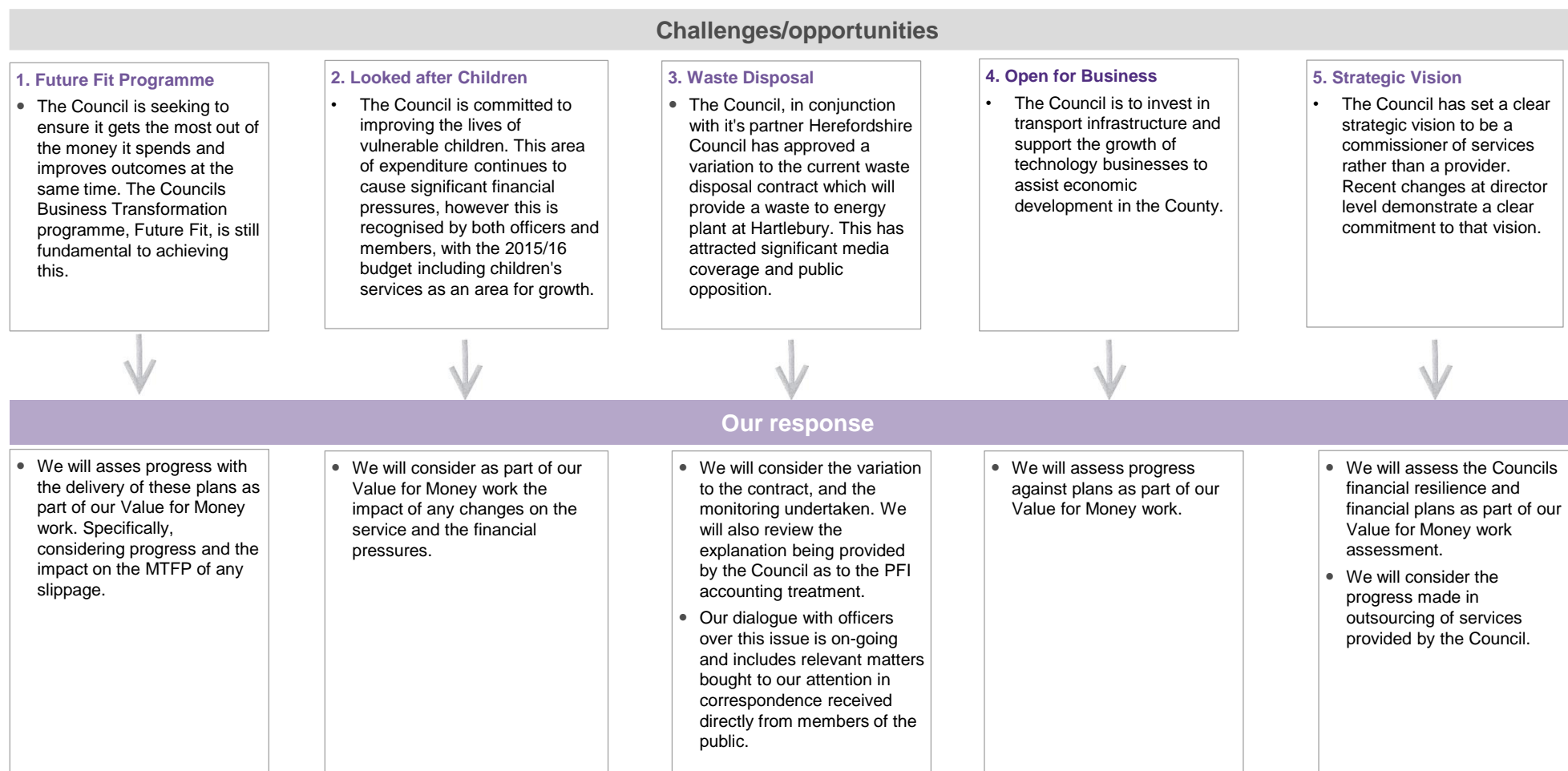
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible 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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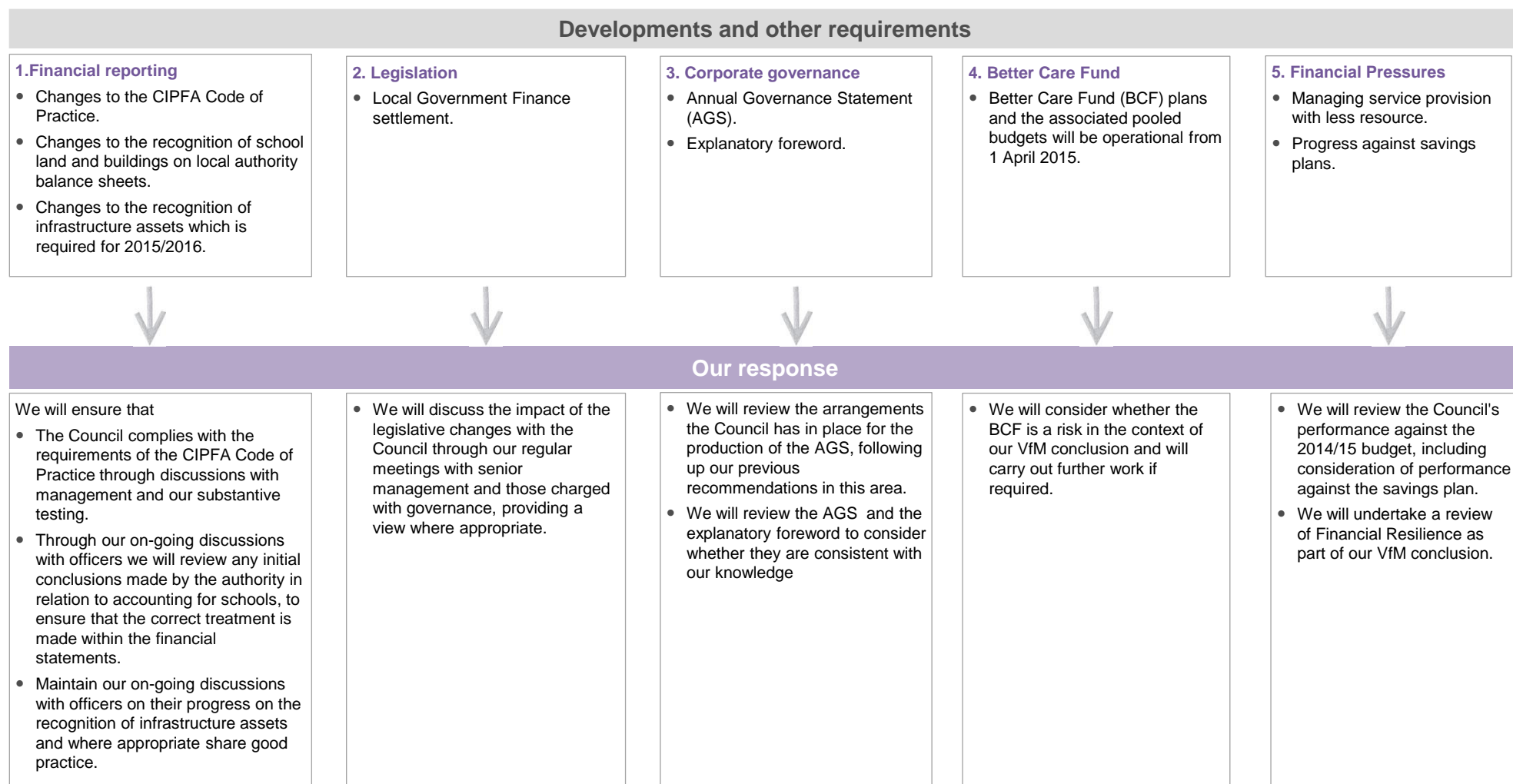
Understanding your business

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

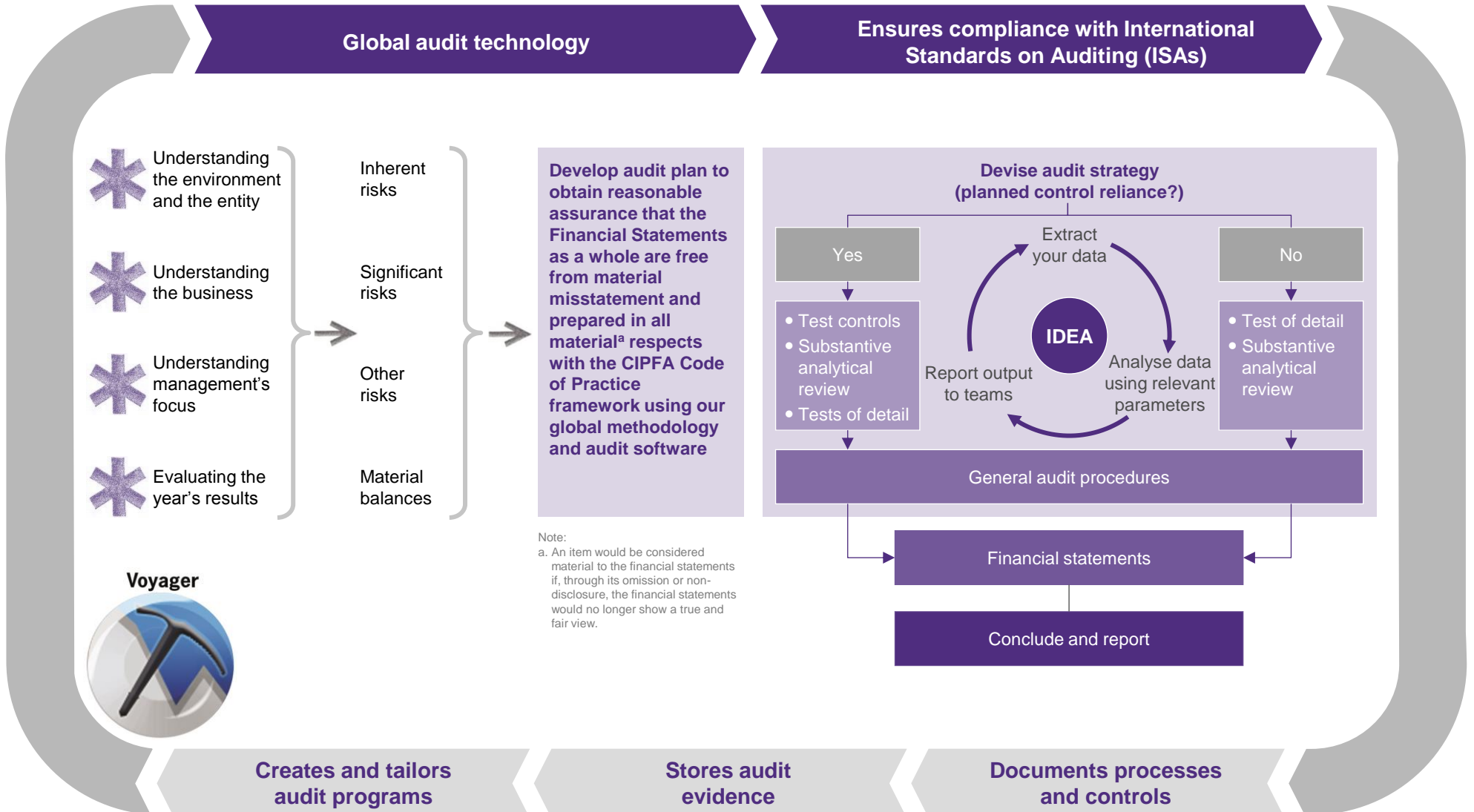


Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.



Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 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 Worcestershire County 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 Worcestershire County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 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 related to core activities (e.g. supplies) understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding and discussed the cycle with relevant personnel from the finance team during the interim audit. • We have conducted a walkthrough of the key controls for this system. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will search for unrecorded liabilities by reviewing payments after the year end. • We will review the Council's accruals process and test accordingly (including goods received).
Employee remuneration	Employee remuneration and benefit obligations and expenses understated.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding and discussed the cycle with relevant personnel from the finance team during the interim audit. • We have conducted a walkthrough of the key controls for this system. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will undertake a reconciliation of the payroll system to the general ledger, including proof in total of the monthly payroll to the general ledger. • We will complete a trend analysis of monthly payroll data. • We will test individual employees on a sample basis.

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:

- Perform a risk assessment and then consider the areas for further review which will support our overall conclusion. We will then update members on the key areas reviewed,
- Follow up any issues highlighted from our review of the public objections made in the prior year, and
- Review the current contract monitoring arrangements in place for the Energy from Waste plant.

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.

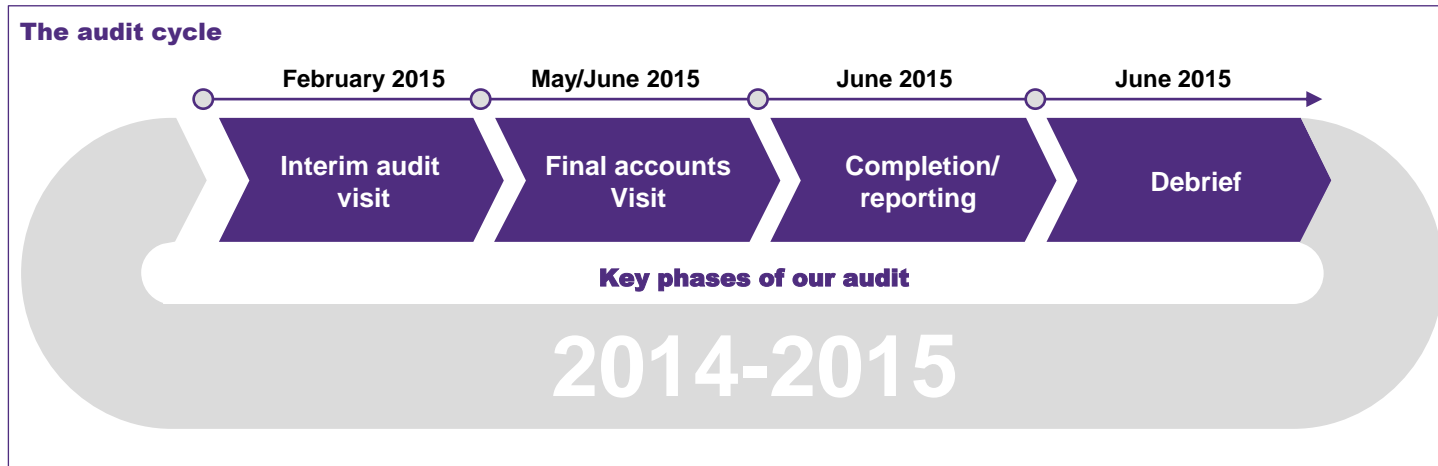
We will agree any additional reporting to the Council on a review-by review basis.

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>Our 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>
Disclosure review	<p>As part of our planning we have discussed with finance officers a number of disclosure requirements that will impact on the 2014/15 accounts.</p>	<p>At this stage, we are satisfied that the Council has plans in place to action these requirements and we will review compliance at the final audit visit.</p>

Key dates



Date	Activity
February 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
May/June 2015	Year end fieldwork
16th June 2015	Audit findings clearance meeting with Director of Finance
26th June 2015	Report audit findings to those charged with governance
10th August 2015*	Sign financial statements opinion * This is a provisional date and may be subject to change.

Fees and independence

Fees

	£
Council audit	127,261
Grant certification	0
Total fees (excluding VAT)	127,261

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. Initial discussions have been held with officers regarding the certification arrangements for both the teachers' pension claim and the major transportation grant which while outside the Audit Commission regime will still require an audit certificate.

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).

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		✓

Communication of audit matters with those charged with governance (cont.)

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Standards Committee)

Area of consideration	Current understanding based on planning and interim work to date
Awareness of fraud or suspected fraud	There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit and Standards Committee on a regular basis.
Views about the risks of fraud	Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan. The risk of material misstatement of the accounts due to undetected fraud is low and this is consistent with the risk management processes that are in place within the Council.
Awareness of whistleblower tips or complaints	Internal Audit are involved in the investigation of whistleblower referrals or complaints with a potential financial impact. There are no material instances of fraud that have been identified during the year arising from whistleblower tips or complaints.
How the Audit & Standards Committee provide oversight of management's fraud risk assessment process	<p>The Annual Governance Statement and Head of Internal Audit Opinion are formally presented to the Audit and Standards Committee on an annual basis.</p> <p>The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process.</p>



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