



The Audit Plan for Sevenoaks District Council

Year ended 31 March 2013

April 2013

Andy Mack

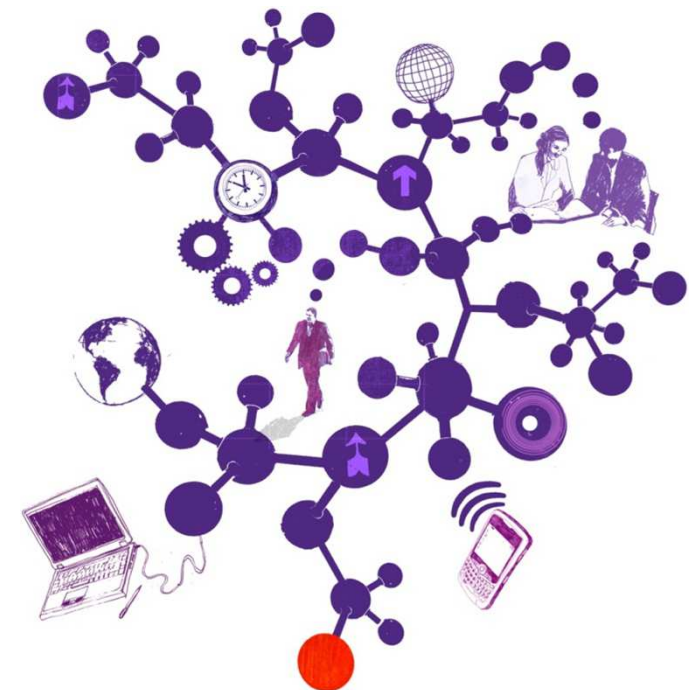
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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Introduction

Purpose

This Audit Plan highlights the key elements of our 2012/13 external audit strategy for Sevenoaks District Council. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to you as those charged with governance for the Council for your consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK and Ireland) and to give an opinion on the Council's 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.

The Audit Commission Act 1998 also requires us to assess annually the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion.


Communicating the results of audit work

We will communicate progress and findings from our audit work to you at key points during the year. Page 13 of this Plan includes the timescale for the audit and audit reporting which sets this out in more detail.

We look forward to working with the Council during the course of this year's audit.

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.

| Challenges/opportunities | | |
|--|---|---|
| <p>1. Reduction in funding and financial position</p> <ul style="list-style-type: none"> Local authorities continue to face significant financial pressures with real reductions in funding from central government likely to continue for the foreseeable future. | <p>2. Participation in shared service arrangements</p> <ul style="list-style-type: none"> The Council has committed to a number of shared service arrangements with neighbouring authority Dartford Borough Council in recent years. These include Revenues and Benefits and Environmental Health and Internal Audit Services . | <p>3. Local government reforms</p> <ul style="list-style-type: none"> The Local Government Finance Act 2012 introduced amendments to council tax support arrangements and business rate retention. These changes increase the council's exposure to finance risks and could have a significant impact on the authority's funding. |
|  | | |
| Our response | | |
| <p>We will:</p> <ul style="list-style-type: none"> review and assess the resilience of the Council's medium term financial plans. | <p>We will :</p> <ul style="list-style-type: none"> assess the effectiveness of shared service delivery, including the extent to which planned benefits are being realised. | <p>We will :</p> <ul style="list-style-type: none"> assess how the council has incorporated the impact of the reforms into its medium term financial plan. |

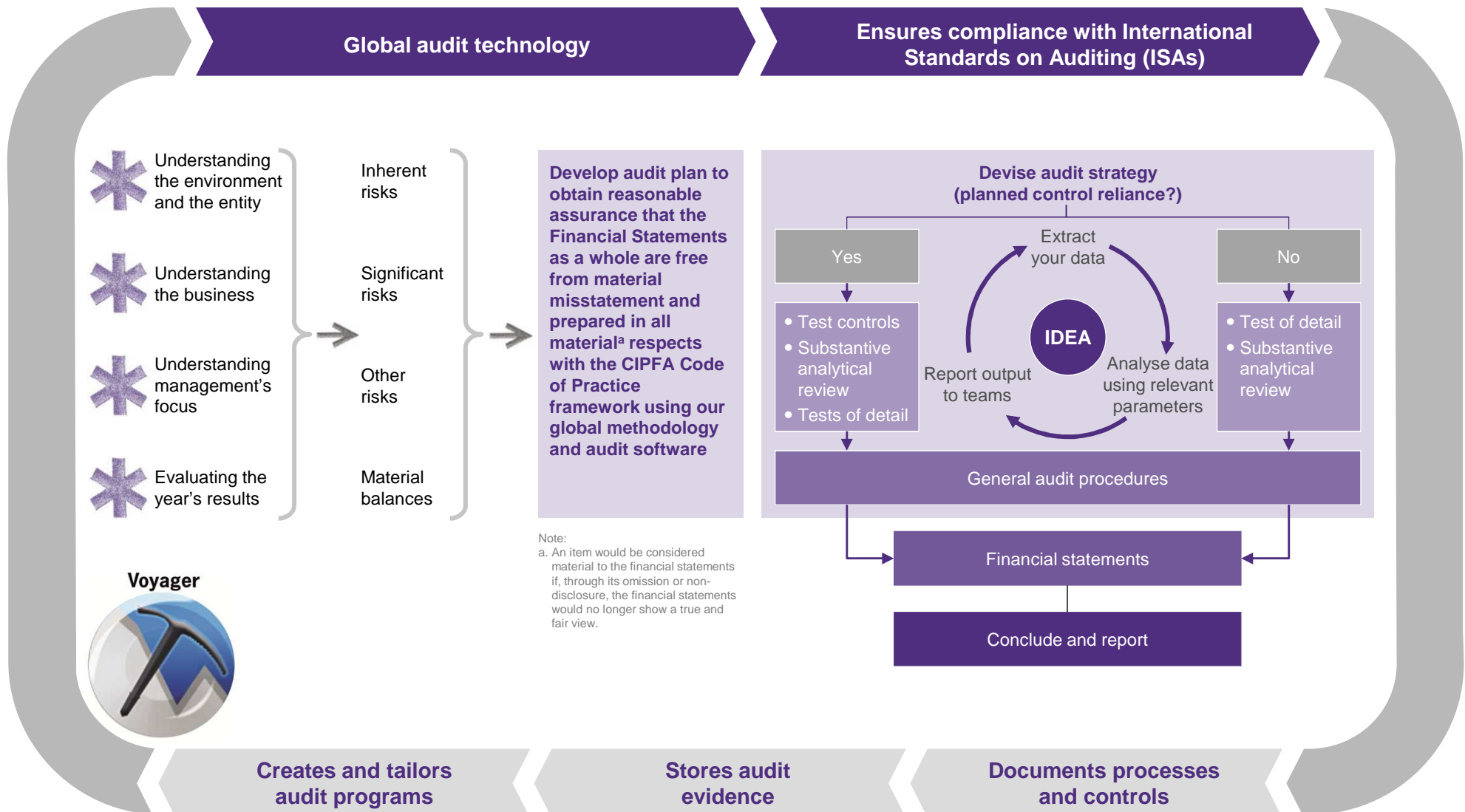
Developments relevant to your business and the audit

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

| Developments and other requirements | | | | | |
|--|---|---|--|--|---|
| <p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income | <p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 | <p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword | <p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) | <p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans | <p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required |

| Our response | | | | | |
|--|--|--|--|--|---|
| <p>We will assess whether:</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • grant income is recognised in line with the correct accounting standard | <ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • We will assess how the Council is dealing with the impact of the 2013/14 changes | <ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion | <ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements |

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|---|---|-----------------------|---------------|-----------------------------|---|----------------------|
| Creditors (Long & Short term) | Yes | Operating Expenses | Medium | Other | Creditors understated or not recorded in the correct period | ✓ |
| Employee remuneration | Yes | Employee remuneration | Medium | Other | Payroll tax obligation understated | ✓ |
| Accruals – Employee remuneration | Yes | Employee remuneration | Medium | Other | Employee remuneration accruals understated | ✓ |
| Costs of services – Housing & council tax benefit | Yes | Welfare expenditure | Medium | Other | Welfare benefits improperly computed | ✓ |

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 | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | <p>Planned work</p> <ul style="list-style-type: none"> • Sample test material revenue streams • Review and testing of revenue recognition policies • Sample test the collectability of significant receivable balances held by the Council at 31 March 2013 and the adequacy of the bad debt provision |
| Management over-ride of controls | Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. | <p>Planned work</p> <ul style="list-style-type: none"> • Preliminary review of accounting estimates, judgements and decisions made by Management • Discussions with management to identify unusual and/or significant transactions and their accounting treatment • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Work completed to date | Further work planned |
|---------------------------------|---|---|---|
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> Identify and walk through activity level controls | <ul style="list-style-type: none"> Substantive testing of a sample of creditors Review list and test significant and unusual balances. |
| Employee remuneration | Payroll tax obligations understated | <ul style="list-style-type: none"> Identify and walk through activity level controls | <ul style="list-style-type: none"> Substantive testing of payments made to HMRC |
| Employee remuneration | Employee remuneration accruals understated | <ul style="list-style-type: none"> Identify and walk through activity level controls | <ul style="list-style-type: none"> Test a sample of payroll payments made during the year to gain assurance that employees have been remunerated at the correct rates during 2012/13. Testing will include agreement of HMRC returns to staff records. |
| Welfare Expenditure | Welfare benefits improperly computed | <ul style="list-style-type: none"> Identify and walk through activity level controls | <ul style="list-style-type: none"> Substantive testing of a sample of benefit claims Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim |

Results of interim audit work

Scope

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

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

| | Work performed | Conclusion/ Summary |
|----------------------------|--|---|
| Internal audit | <p>We review the Council's Internal Audit arrangements, including progress in delivering the risk-based 2012/13 plan.</p> <p>We review specific Internal Audit reports in detail where these relate directly to our own audit work, for example, reviews of the Council's significant financial systems.</p> <p>We liaise with Internal Audit at key points during the year to agree testing requirements.</p> | <p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.</p> |
| Walkthrough testing | <p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.</p> | <p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our understanding.</p> |

Results of interim audit work (continued)

| | Work performed | Conclusion/ Summary |
|---|--|---|
| Review of information technology (IT) controls | 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. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements. | No significant issues were noted. IT controls were observed to have been implemented in accordance with our documented understanding. |
| Journal entry controls | 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. | We will follow up with journal testing of large and unusual transactions after the year end |

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages 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.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

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

Specifically we will:

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

Logistics and our team

The audit cycle



Our team

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| By Date | Activity |
|--|--|
| Dec 2013 | Planning meeting |
| 4 th -12 th April 2013 | Interim site work |
| 11 th June 2013 | The audit plan presented to Audit Committee |
| 15 th July 2013 | Year end fieldwork commences |
| 29 th August 2013 | Audit findings clearance meeting |
| 10 th September 2013 | P&G Committee meeting to report our findings |
| 30 th September 2013 | Sign financial statements and VfM conclusion |
| 28 th October 2013 | Issue Annual Audit Letter |

Fees and independence

Fees

| | £ |
|---|--------|
| Audit of the accounts and value for money | 56,641 |
| Grant certification -estimate | 30,300 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- We will advise on our fee for grant claim work later in 2013.

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.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |



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