

The Audit Plan for Torridge District Council

Year ended 31 March 2017

2 May 2017

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2 May 2017

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Dear Members of the Audit and Governance Committee

Audit Plan for Torrige Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Torrige District Council, the Audit and 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 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 which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely



Geraldine Daly
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC have now reviewed the position and decided at its meeting on 8 March not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements of local authorities.

Transforming Torridge

The next phase of the Transforming Torridge Programme is underway, which will include alterations to the Riverbank House Building and the eventual move of all staff out of Bridge Buildings. This is a significant project for the Council and is a key part of its plans in the Medium Term.

North Devon +

The Council's relationship with North Devon + has changed recently as the Council looks to make changes to the company. We have had early discussions with the Council on the proposed changes.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

Local challenges

As with the majority of Councils, Torridge DC has a significant challenge in achieving its identified savings target in the medium term.

The total central government funding in 2017/18 has reduced by £479k from 2016/17, with the revenue support grant reduction accounting for £430k of this fall.

This will continue to focus the Council's plans going forward.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

We have discussed the requirements of the Code with Council officers, who have plans in place to deal with the new disclosure requirements. This area has been added to our audit plan as an "other Risk" see page 10

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council plans to complete its closedown earlier than the prior year and we plan to complete our audit fieldwork by 31 July 2017.

Our response

- We aim to complete all our substantive audit work of your financial statements by 31 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.
- We will review the Council's medium term financial plan, savings plans and targets and the year end outturn position as part of our work in reaching our VFM conclusion.
- We will consider the potential impact on the Council of the changes to North Devon +, including whether there is a group accounts impact.

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £701k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

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 £35k.

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. | £10k |
| Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £5k, to ensure the correct bandings are used |
| Audit fees Members allowances Related party transactions | Due to public interest in these disclosures. | £1k £5k £20k |

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Significant risk | Description | Audit procedures |
|--|---|---|
| <p>The revenue cycle includes fraudulent transactions</p> | <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. 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 Torridge 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 Torridge District Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Torridge District Council.</p> |
| <p>Management over-ride of controls</p> | <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk 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. • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation for months 1 to 10. • Review of unusual significant transactions. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation for months 11 to 12 and closedown journals. • Review of unusual significant transactions. |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

| Significant risk | Description | Audit procedures |
|--|---|---|
| <p>The expenditure cycle includes fraudulent transactions</p> | <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p> | <p>We do not consider that there is a fraud risk in relation to expenditure recognition, however we do recognise that there is a risk around completeness, in particular 'Year end creditors and accruals are understated or not recorded in the correct period' and employee remuneration is understated.</p> <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of internal financial controls relating to operating expenses and employee remuneration. • Walkthrough testing to confirm that controls are implemented. <p>Further work planned:</p> <p>The further work planned for our risks in relation to operating expenses and employee remuneration are detailed on page 9 .</p> |
| <p>Valuation of property, plant and equipment</p> | <p>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 the current value. This represents a significant estimate by management in the financial statements.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work. <p>Further work planned:</p> <ul style="list-style-type: none"> • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. • 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. |

Significant risks identified (continued)

| Significant risk | Description | Audit procedures |
|---|---|--|
| <p>Valuation of pension fund net liability</p> | <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. <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 accuracy of the information supplied to the pension fund by the Council. • 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 and disclosures in notes to the financial statements with the actuarial report from your actuary. |

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Reasonably possible risks | Description of risk | Audit procedures |
|---------------------------|--|---|
| Operating expenses | Year end creditors and accruals are understated or not recorded in the correct period. | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of internal financial controls relating to operating expenses. • Walkthrough testing to confirm that controls are implemented. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the application of the year end closedown process for capturing creditor accruals. • Undertake substantive testing of year end creditors including after date payments. • Test Goods Received not Invoiced listing to confirm appropriate accruals. • Review control account reconciliations covering the agreement of creditor payments to the ledger. |
| Employee remuneration | Employee remuneration accruals are understated | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of internal financial controls relating to employee remuneration. • Walkthrough testing to confirm that controls are implemented. <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconcile the annual payroll to the ledger and to the segmental analysis note in the accounts. • Complete trend analysis of monthly and weekly payroll payments covering 2016/17 and comparing to 2015/16 to determine whether substantive testing is required. • Review of payroll accrual processes and determine whether substantive testing is required. • Substantive testing of the completeness of IAS19 pension liabilities. • Agreement of employee remuneration disclosures in the financial statements to supporting evidence. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

| Other risks | Description of risk | Audit procedures |
|--|---|--|
| <p>Changes to the presentation of local authority financial statements</p> | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. <p>Further work planned:</p> <ul style="list-style-type: none"> • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. |

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

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 sections but will include:

- Heritage assets
- Long and short term debtors
- Short term investments
- Cash and cash equivalents
- Short term creditors
- Provisions
- Borrowings and other liabilities (long term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Other operating expenditure
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

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 National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The 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 opposite:

| 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 sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) 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 and utilising 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 have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). 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. These are set out overleaf.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Reporting

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 include our conclusion in our auditor's report on your financial statements which we will give by 25 August 2017.

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 | Link to sub-criteria | Work proposed to address |
|---|---|---|
| <p>Medium Term Financial Planning Like all public sector bodies, the Council is facing financial pressures with cuts in central funding and has recently refreshed its Medium Term Financial Strategy (MTFS), taking into accounts recent changes such as the changes in the arrangements for New Homes Bonus. The MTFS is balanced through to 2021/22 partly by use of reserves</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the Council's latest MTFS and the 2017/18 budget, considering the assumptions that underpin the figures within them.</p> |
| <p>Transformation Programme The next phase of the Transforming Torridge Programme is underway, which will includes alterations to the Riverbank House Building and the eventual move of all staff out of Bridge Buildings. The project has been delayed by Environment Agency requirements on the proposals for Riverbank House.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the arrangements in place around this next phase of the transformation project, which is a significant project for the Council and the way that it will deliver its services. This will include the revenue and capital implications of the programme, the monitoring of the project, and the reporting to members to inform decision making.</p> |

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

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:

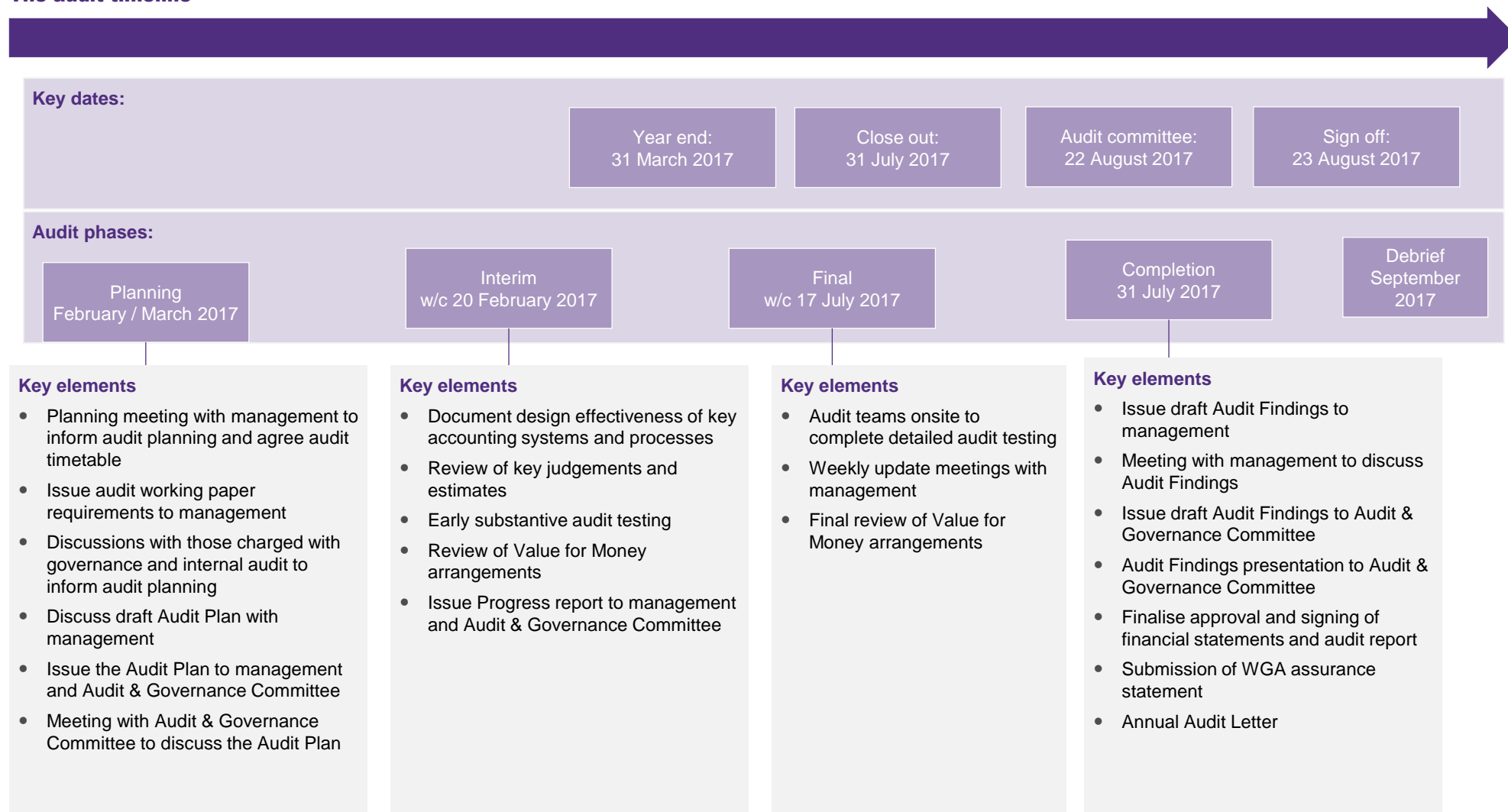
| | Work performed | Conclusion |
|--|--|---|
| Internal audit | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have followed up the weaknesses identified by internal audit in their 'ICT Cyber Security' report and have confirmed progress is being made actioning the red risk recommendations.</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> |
| Review of information technology controls | <p>We 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 identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We have confirmed that progress is being made to action the recommendations in the cyber security report.</p> |

Results of interim audit work (continued)

| | Work performed | Conclusion |
|----------------------------------|---|--|
| 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. These areas are: Operating Expenses, Employee Remuneration and PPE Valuation.</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>Our work has not identified any weaknesses which impact on our audit approach.</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>To date we have undertaken detailed testing on journal transactions recorded for the first ten 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>Our work has not identified any weaknesses which impact on our audit approach to date.</p> <p>We plan to undertake detailed testing of journal transactions recorded for the remaining months of the financial year during the accounts audit.</p> <p>We also plan to review year-end controls and undertake detailed testing of journal transactions recorded in the closedown period during the accounts audit.</p> |
| Early substantive testing | <p>We have completed early substantive testing in a number of areas to reduce the year end workload and to provide earlier assurances for our final accounts planning.</p> <p>We have performed testing of months 1 to 10 transactions in the following areas:</p> <ul style="list-style-type: none"> • Revenues (non-grant income) • Operating expenses (expenditure payments) • Employee remuneration (payroll transactions) • Welfare expenditure (housing benefit transactions). <p>We have also discussed a number of areas with officers and agreed the accounting treatment, including accruals limits, housing benefit overpayment provision and PPE fixed asset register restatement. We will continue to discuss progress with the 'Telling the Story' project and plan to review the restatement prior to the year-end. We have also discussed the changes in arrangements for North Devon + and will consider the Council's proposed treatment within the accounts.</p> | <p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>Our revenues testing identified one transaction that was an internal transaction, which should not be accounted for as income to the Council. The Council has reviewed similar transactions and confirmed it will not record these as expenditure in the year-end accounts.</p> <p>We plan to undertake detailed testing on transactions recorded for the remaining months of the financial year during the accounts audit.</p> |

The audit cycle

The audit timeline



Audit Fees

Fees

| | £ |
|---|---------------|
| Council audit | 41,288 |
| Grant Certification | 8,444* |
| Total audit fees (excluding VAT) | 49,732 |

* Indicative fee

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

There are no fees for other services. Any proposed fees for other services will be discussed with management and would be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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 Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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 CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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 | ✓ | ✓ |

Appendix 1: 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 | The Code requires that internal transactions are not accounted for by the Council. The Council should review its income and expenditure transactions to ensure internal transactions are not accounted for within the Council's Comprehensive Income and Expenditure Statement (CIES). | Medium | <p>This pertained to internal Council departments booking the conference facilities at Caddsdwn. The procedure has changed, and there is no "internal" income charged for Council departments reserving the facilities at Caddsdwn.</p> <p>Additionally the Council will no longer credit the property services department with income where voluntary sector organisations are provided free accommodation in lieu of grant.</p> | February 2017 – Finance Manager |



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