



# The Audit Plan for West Lancashire Borough Council

**Year ended 31 March 2014**

3 March 2014

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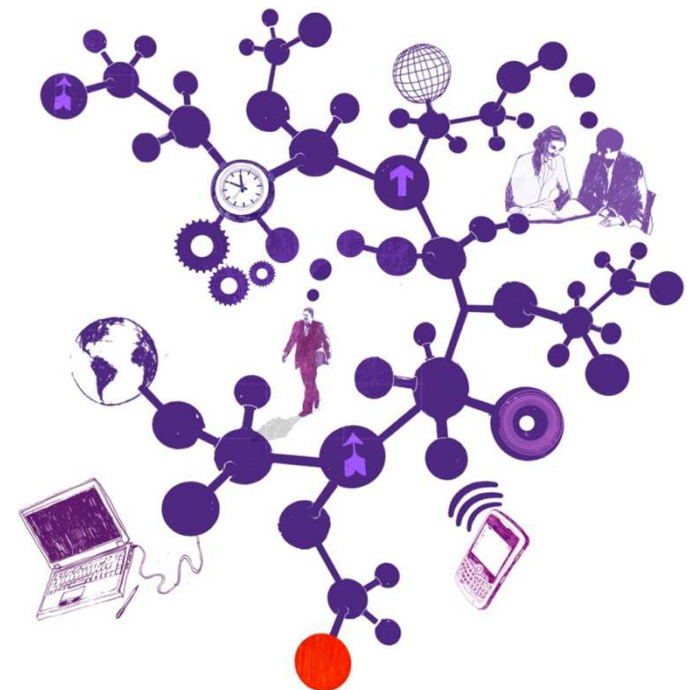
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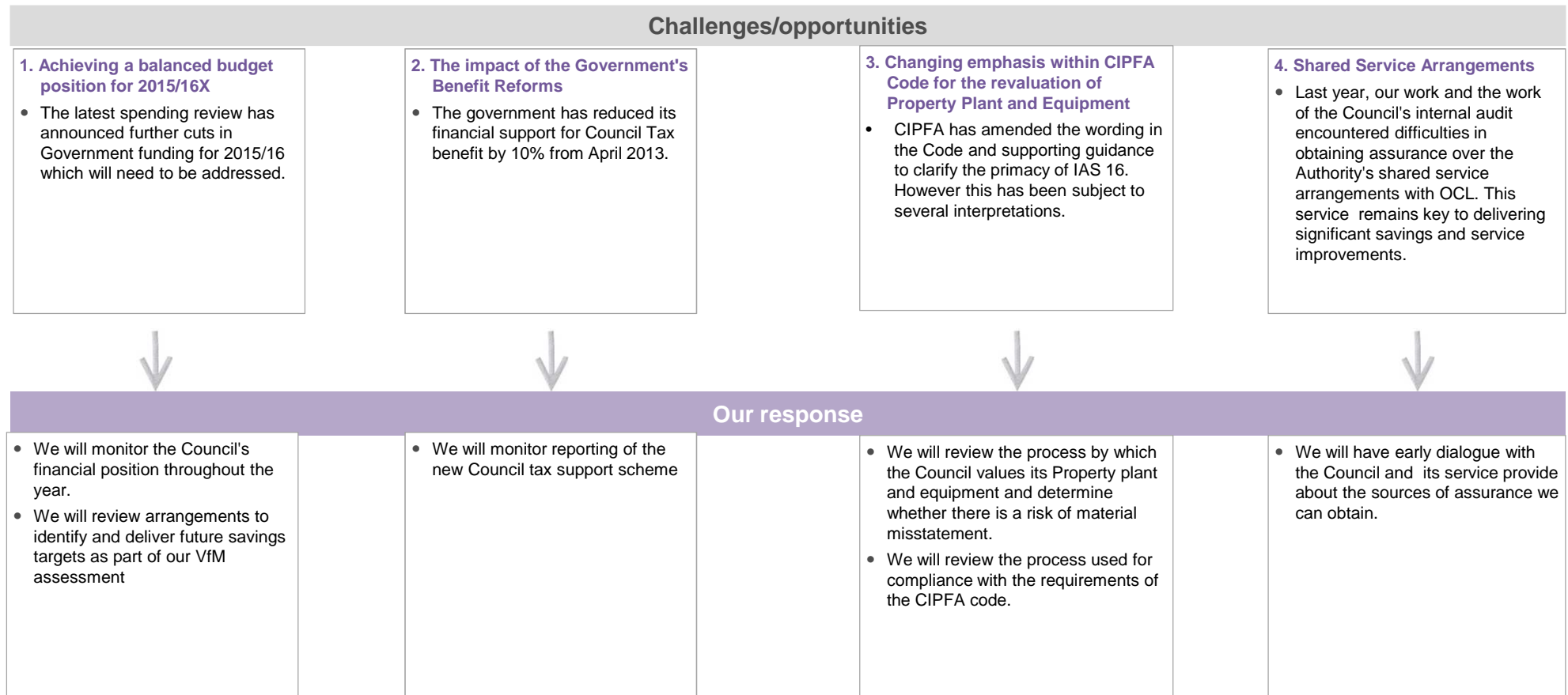
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# Understanding your business

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 relevant to your business and the audit

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

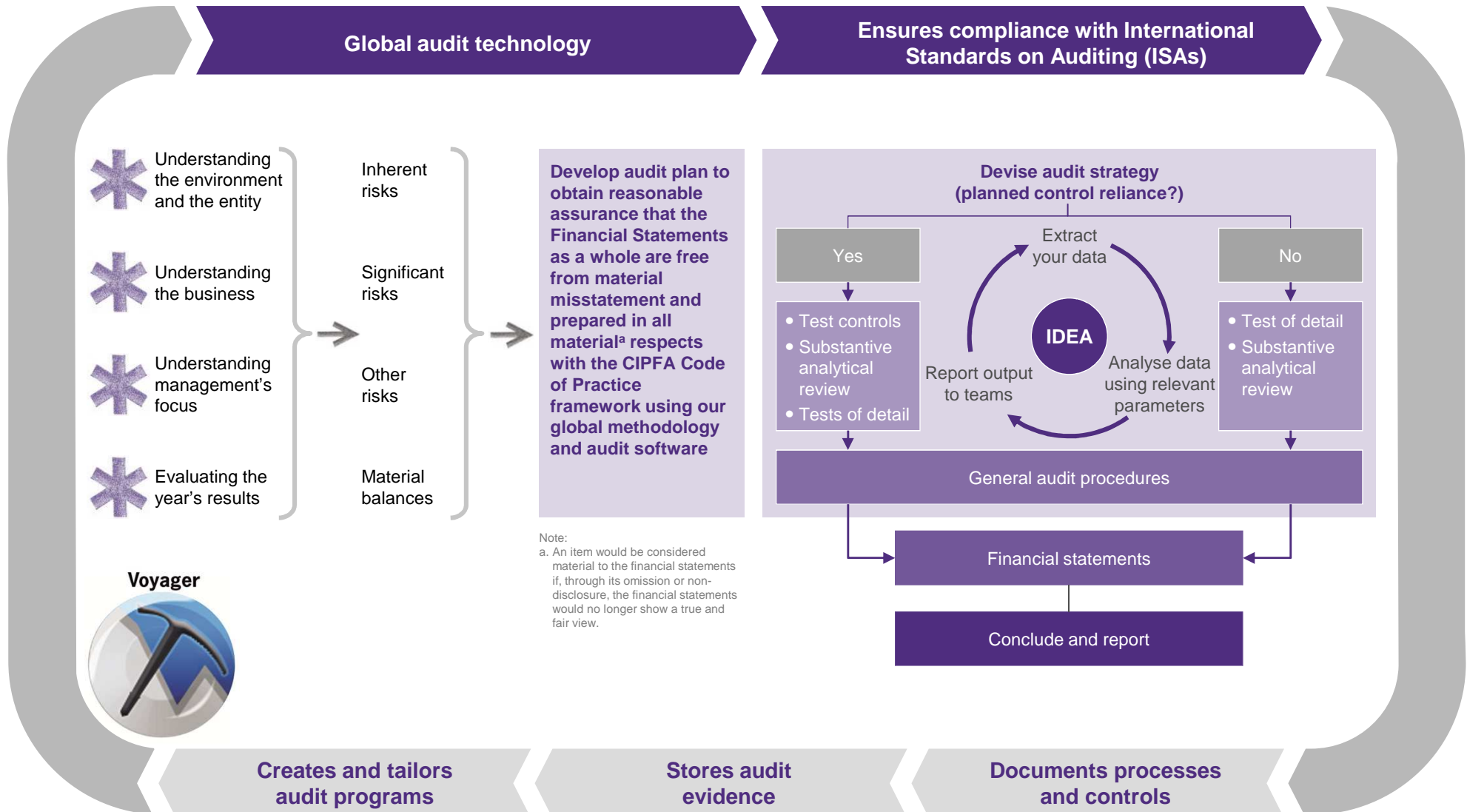
## Developments and other requirements

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

## Our response

|  |  |  |   |  |   |
|--|--|--|---|--|---|
| <p>We will hold discussions with management and conduct substantive testing to ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice in the way it conducts and accounts for PPE valuations, and</li> <li>• the Council complies with the requirements of the CIPFA Code of Practice when making provisions for business rate appeals</li> </ul> | <ul style="list-style-type: none"> <li>• 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</li> </ul> | <ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul> | <ul style="list-style-type: none"> <li>• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul> | <ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul> | <ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul> |
|--|--|--|---|--|---|

# 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 | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.     | <p><b>Work to be completed as part of the Interim visit:</b></p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing a sample of transactions within material revenue streams during the period to January 2014</li> </ul> <p><b>Work planned later in the year:</b></p> <ul style="list-style-type: none"> <li>• Testing a further sample of transactions within material revenue streams up to the year end</li> <li>• Review and testing of adjustments to revenue stream totals that occur as part of the closedown at the year-end</li> </ul>  |
| 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><b>Work to be completed as part of the interim visit:</b></p> <ul style="list-style-type: none"> <li>• Review management's approach to the use of estimates, judgments when preparing financial statements</li> <li>• Testing a sample of journal entries during the period to January 2014</li> <li>• Review of unusual significant transactions recorded during period to January 2014</li> </ul> <p><b>Work planned later in the year:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing a further sample of journal entries up to and beyond the year-end</li> <li>• Review of unusual significant transactions up to and beyond the year-end</li> </ul> |

## 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 reasonably possible risks | Description   | Work planned   |
|---------------------------------|---|--|
| Operating expenses              | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> <li>• Agreeing balances substantively to general ledger</li> <li>• Agreeing general ledger to subsidiary accounts payable ledger(s)</li> <li>• Search for unrecorded liabilities</li> <li>• Cut-off testing to ensure transactions recorded in correct accounting period</li> <li>• Testing a sample of creditor and accruals balances to source documents</li> <li>• Testing a sample of transactions processed through the accounts payable procedures for evidence of occurrence and valuation including correct VAT treatment .</li> </ul>  |
| Employee remuneration           | Employee remuneration accrual understated                   | <ul style="list-style-type: none"> <li>• Agreeing balances substantively to general ledger</li> <li>• Agreeing general ledger to subsidiary payroll ledger uploads</li> <li>• Search for unrecorded liabilities</li> <li>• Cut-off testing to ensure transactions recorded in correct accounting period</li> <li>• Testing sample of year end creditor balances for staff costs</li> <li>• Agree senior officer disclosures to payroll data</li> <li>• Substantive testing on cost of pensions- agreeing disclosure of pensions information as provided by the actuary.</li> <li>• Testing a sample of payroll payments back to staff records and timesheets to confirm existence/occurrence and valuation. We will liaise with colleagues at Wigan MBC to ensure this work is completed efficiently</li> <li>• Review of employee listing and journals for large and unusual items</li> </ul> |



## Other risks identified

| Other reasonably possible risks        | Description                                     | Work planned   |
|--|---|--|
| Welfare Expenditure                    | Welfare benefit expenditure improperly computed | <ul style="list-style-type: none"> <li>• Reconcile figures in accounts to Housing Benefits subsidy claim</li> <li>• Complete the required modules 2, 3, 4 and 5 of the Audit Commission/ DWP certification programme including a review of statistical data provided by the DWP.</li> <li>• Review the results of work carried out by Internal Audit</li> <li>• Confirm accounting treatment is in line with the Code of Practice</li> <li>• Test a sample of housing benefit claims back to source documents to confirm occurrence and accuracy of the assessment.</li> </ul> |
| Housing Revenue Account Dwelling Rents | Revenue transactions not recorded               | <ul style="list-style-type: none"> <li>• Agreeing substantively to general ledger</li> <li>• Agreeing the general general ledger to subsidiary rents ledger</li> <li>• Rental income cut-off testing</li> <li>• A review of large and/or unusual items in the debtors listing and review of bad debt provision.</li> <li>• Testing a sample of property records from the property listing and testing the income derived from those properties confirming occurrence, accuracy and completeness of recording.</li> </ul>   |
| Property, Plant & Equipment            | PPE activity not valid                          | <ul style="list-style-type: none"> <li>• Agreeing substantively to general ledger</li> <li>• Agreeing general ledger to fixed asset register</li> <li>• Reconciling movements to capital funding note</li> <li>• Testing capital creditor creditors to source documents</li> <li>• For individually significant revaluations and a sample of others we will agree valuations to asset register and ensure revaluations properly accounted for.</li> <li>• Agreeing significant disposals and confirming any profit/loss on sale have been calculated correctly.</li> </ul>     |
| Property, Plant & Equipment            | Revaluation measurement not correct             | <ul style="list-style-type: none"> <li>• For impairments and revaluations ,gaining an understanding of how management seeks to identify factors which may reduce the value of assets . Reviewing the reasonableness of the use of experts and judgements/estimates .</li> </ul>  |

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# 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:

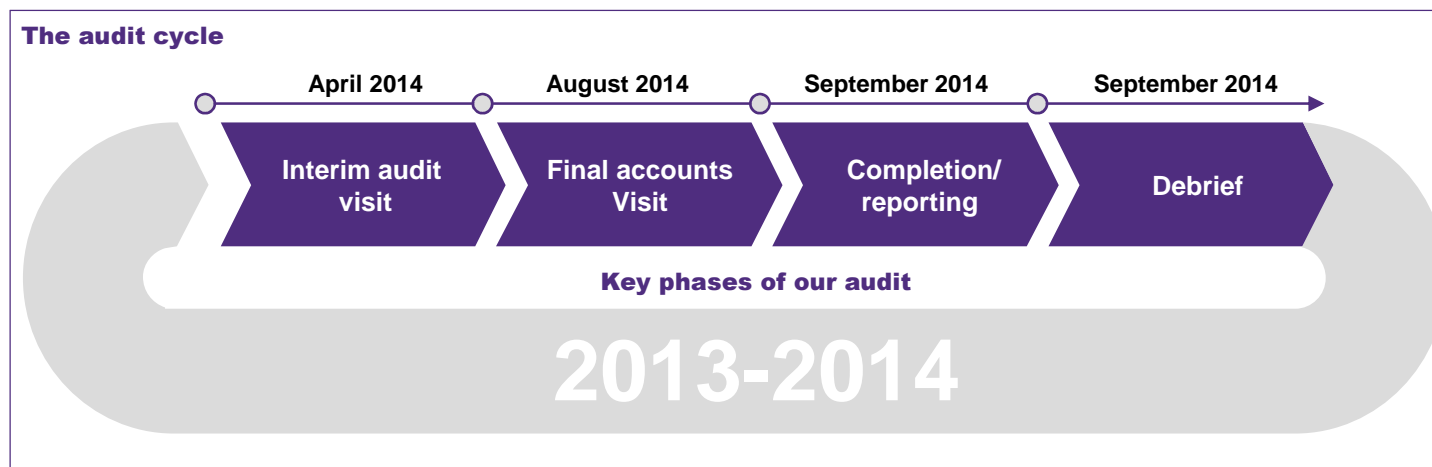
| VfM criteria  | Focus of the criteria  |
|---|--|
| The organisation has proper arrangements in place for securing financial resilience                           | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial 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:

- adequacy of the medium term financial plan- to ensure it continues to a relevant and live tool for managing the Council's finances,
- the impact of changes in asset values on the medium term financial plan,
- adequacy of arrangements for monitoring the performance of outsourced services, to ensure they contribute to planned savings
- updating financial resilience benchmark data.

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.

# Key dates



| <b>Date</b>   | <b>Activity</b>   |
|---|---|
| <b>6 January 2014 until conclusion of the audit</b>   | Planning  |
| <b>26 March to 17 April 2014</b>  | Interim site visit  |
| <b>25 March 2014</b>  | Presentation of audit plan to Audit and Governance Committee                            |
| <b>4 August 2014 to 5 September 2014</b>  | Year end fieldwork  |
| <b>8 September 2014 (provisional)</b>   | Audit findings clearance meeting with Borough Treasurer                                 |
| <b>September 2014 (to be arranged)</b>  | Report audit findings to those charged with governance (Audit and Governance Committee) |
| <b>September 2014 ( to be arranged subject to date of the Audit and Governance Committee meeting)</b> | Sign financial statements opinion   |

# Fees and independence

## Fees

|                                   | £             |
|-----------------------------------|---------------|
| Council audit                     | 57,428        |
| Grant certification (TBC)         | 17,500        |
| <b>Total fees (excluding VAT)</b> | <b>74,928</b> |

## Fees for other services

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

### 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
- Please note that the certification fee may be subject to revision by the Audit Commission as certification of council tax benefit is no longer required as part of the Housing Benefit Subsidy scheme.

### 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](http://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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