

The Audit Plan and Interim Report for West Lancashire Borough Council

Year ended 31 March 2015

24 March 2015

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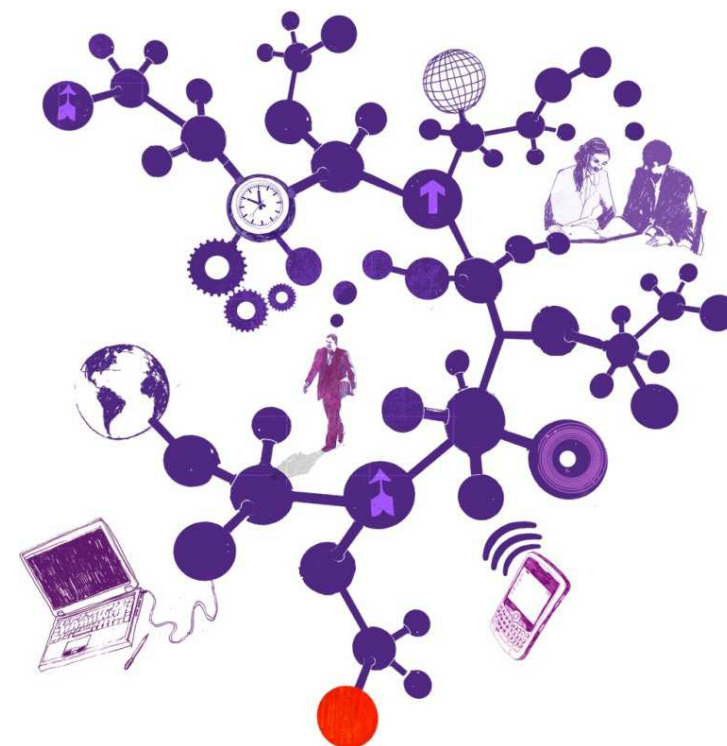
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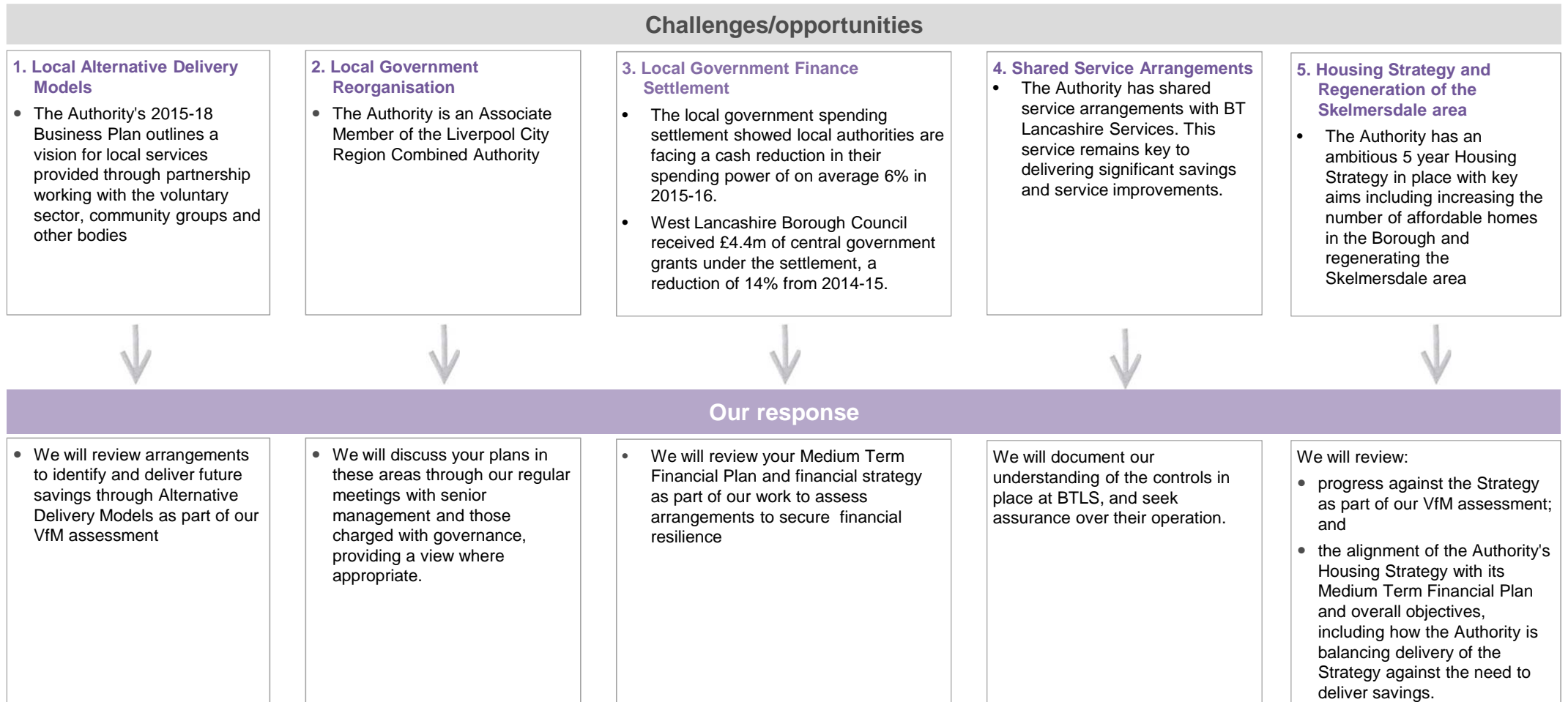
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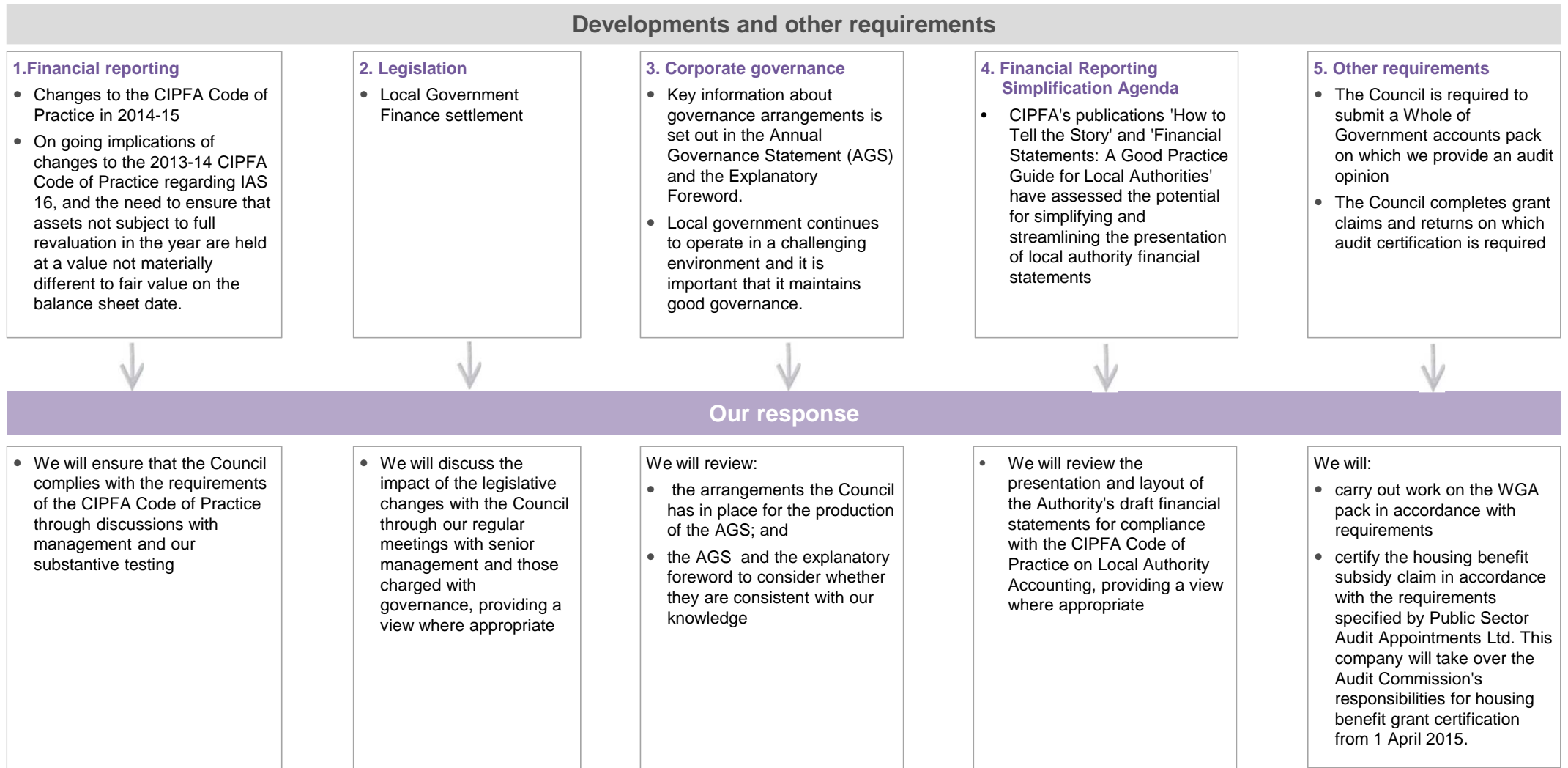
Understanding your business

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.

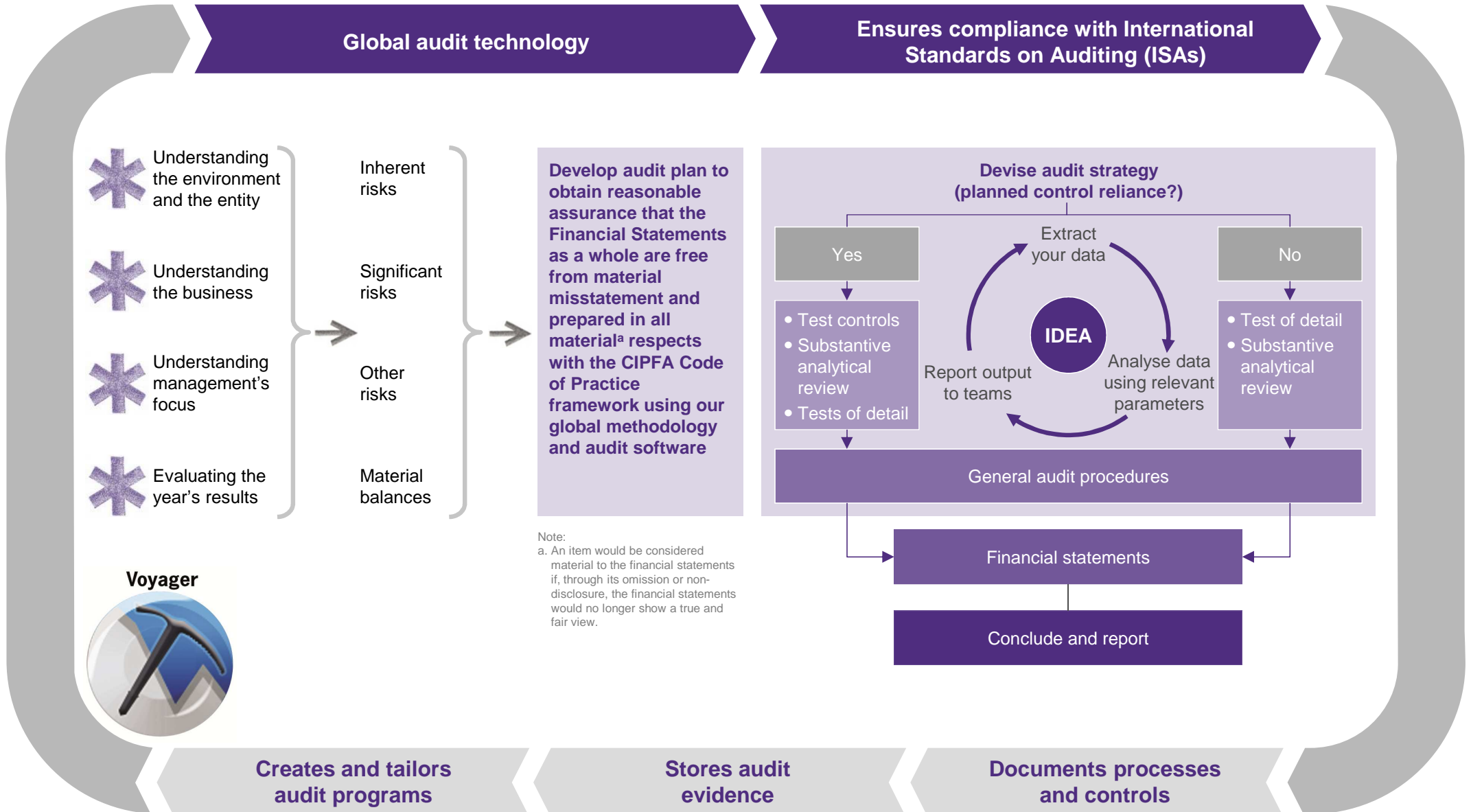


Developments relevant to your business and the audit

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.



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 West Lancashire Borough 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 West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption 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"> • Testing of journal entries to Month 11 <p>Work to be completed:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries to cover the period from Month 11 to the year-end • 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 understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around operating expenditure at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of non-pay expenditure to Month 11 <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconciliation of accounts payable systems to general ledger and financial statements • Substantive testing of a sample of non-pay expenditure from Month 11 to the year-end • Review of accruals process and substantive testing of a sample of manual accruals and creditor balances • Sample testing of payments around the year-end • Review and testing of other items of expenditure and disclosures including MRP and members' allowances
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around employee remuneration at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of payroll transactions to Month 11 <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconciliation of payroll data to general ledger and financial statements • Substantive testing of a sample of payroll transactions from Month 11 to the year-end • Substantive analytical review of payroll costs for the year • Substantive testing of senior officer remuneration disclosures • Review and testing of other pay disclosures including exit packages notes

Other risks cont'd

Other risks	Description	Audit Approach
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around welfare benefit payments at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of claimant eligibility for a sample of welfare benefit payments for the period to Month 11 <p>Further work planned:</p> <ul style="list-style-type: none"> • Reconciliation between Northgate welfare benefits system, the general ledger and the financial statements and supporting notes • Substantive testing of claimant eligibility for a sample of welfare benefits to cover the period from Month 11 to the year-end • Additional substantive testing on selected welfare benefit sample • Testing of Housing Benefit Subsidy Claim using the Audit Commission HB COUNT approach

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:

- Assessment of the updates to revenue budgets and the Medium Term Financial Strategy 2015 – 2018 in light of the most recent local government finance settlement and the comprehensive spending review.,
- 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

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 issue a separate report to the Council in respect of VfM.

Results of interim audit work

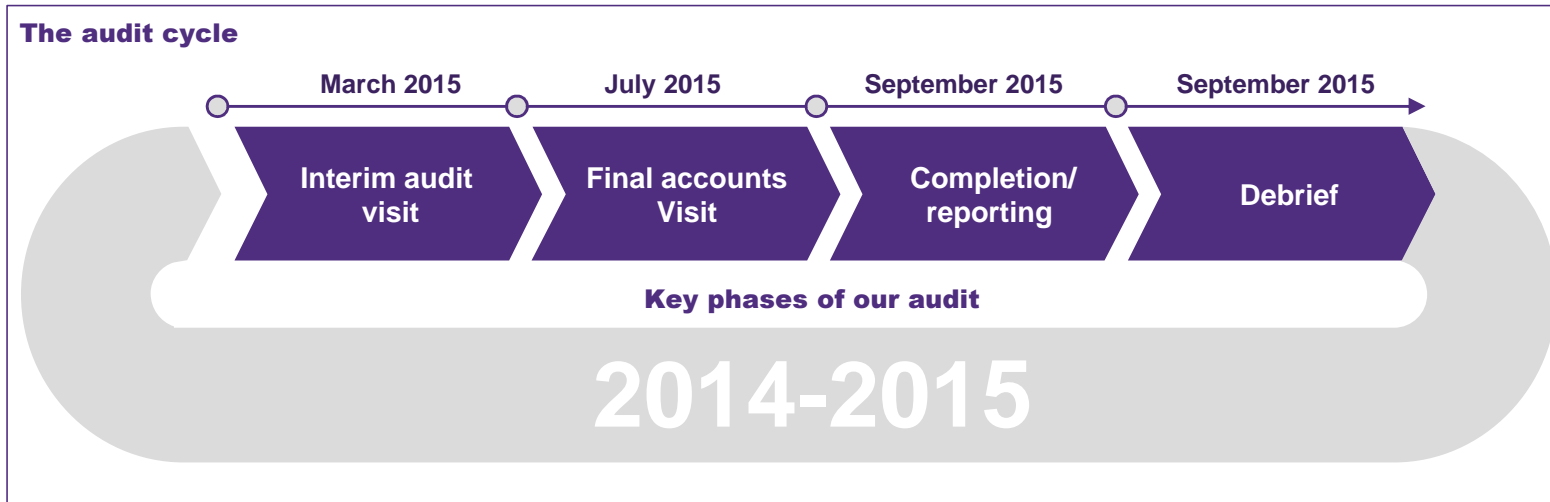
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	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.</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 not identified any material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>We are in the process of performing a follow up of the issues raised last year by our information systems specialist, who performed a high level review of the general IT control environment as part of the overall review of the internal controls system.</p>	<p>Our work in prior years identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>Once our IT work is complete, we will agree the findings from our work with the Council and discuss any recommendations arising. We will also consider whether there is any impact on our audit approach for the final accounts audit.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures to inform our journal entry testing strategy, and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We are in the process of undertaking detailed testing on journal transactions recorded for the first eleven months of the financial year, by extracting large and 'unusual' entries for further review.</p>	<p>The review of journal entry policies and procedures has identified no material weaknesses in the system, and our audit approach has been tailored in line with our understanding.</p> <p>Once our journals work is complete, we will agree the findings with Council Officers and present any significant findings to the Audit and Governance Committee.</p>
Early substantive testing	<p>We have undertaken sample transaction testing to cover the first 11 months of the current financial year in respect of:</p> <ul style="list-style-type: none"> • Employee Remuneration • Operating Expenses • Property Plant and Equipment • Welfare Benefits transactions <p>This early work is design to streamline the audit process and to support you in brining forward work to meet the requirements for earlier closure of the accounts and audit in future years.</p>	<p>Our work is still underway.</p> <p>During our final accounts audit visit we will test transactions for the last month of the financial year.</p> <p>A summary of our final findings will be reported to the Audit and Governance Committee in September 2015.</p>

Key dates



Date	Activity
February - March 2015	Planning
2 March – 2 April 2015	Interim site visit
24 March 2015	Presentation of audit plan to Audit Committee
6 – 31 July 2015	Year-end fieldwork
July 2015 (date to be arranged)	Audit findings clearance meeting with Borough Treasurer
29 September 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
29 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	57,428
Grant certification	14,560
Total fees (excluding VAT)	71,988

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.

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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