

# The Audit Plan for Warwickshire County Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

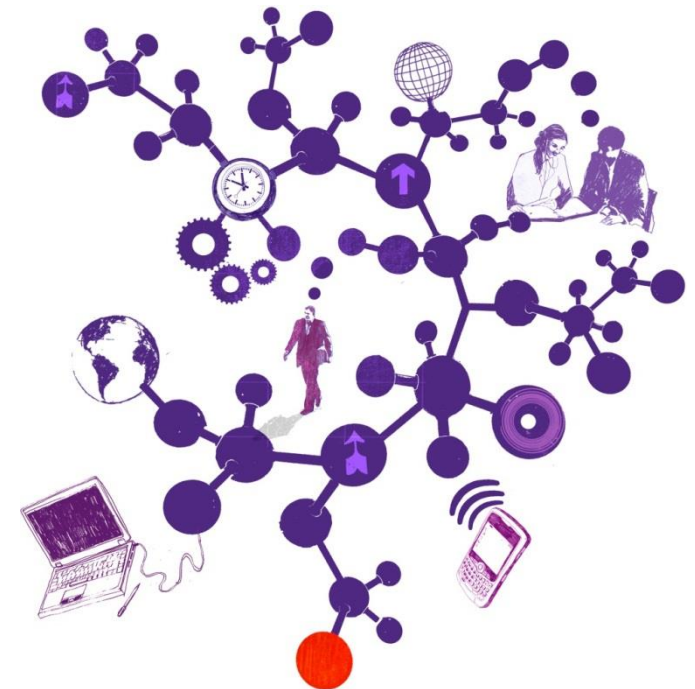
**Year ended 31 March 2015**

29 January 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Understanding your business

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

## Challenges/opportunities

### 1. Shaping the Future

- Following the changes to central government funding, the council has set a 2014/15 revenue budget and medium term financial plan which includes a savings programme amounting to £92 million to be delivered by 2018. This is not just about savings, it is about service transformation



### 2. Adult Social Care

- The council is committed to the modernisation and transformation of adult social care; an area which represents the largest single area of expenditure and the most significant change agenda faced by the council
- In addition, new funding streams via the Better Care Fund are due to be implemented in 2014/15



### 3. Working with Partners and Communities

- The Council has identified that strengthening and building relationships with partners is key to the achievement of its wider financial and transformational objectives.
- Recent months have seen increased national focus on NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.



### 4. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16.
- At the same time local authorities are facing increasing demands for school places and adult social care services.



## Our response

- We will assess the Council's financial resilience and its financial plans as part of our value for money assessment and going concern assessment.
- We will report our findings to the Audit Committee in the Autumn

- Through discussions with key officers and document review, we will monitor progress in this area as part of our Value For Money (VFM) work
- We will consider whether the Better Care Fund is a risk in the context of our VFM conclusion and will carry out further work if required

- We will assess progress with the delivery of these plans as part of our Value for Money work. Specifically, considering progress and the impact on the Medium Term Financial Plan of any slippage
- We will consider evidence of progress made by the Council around increased collaboration with NHS bodies and in relation to Fire and Rescue services

- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

# 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.

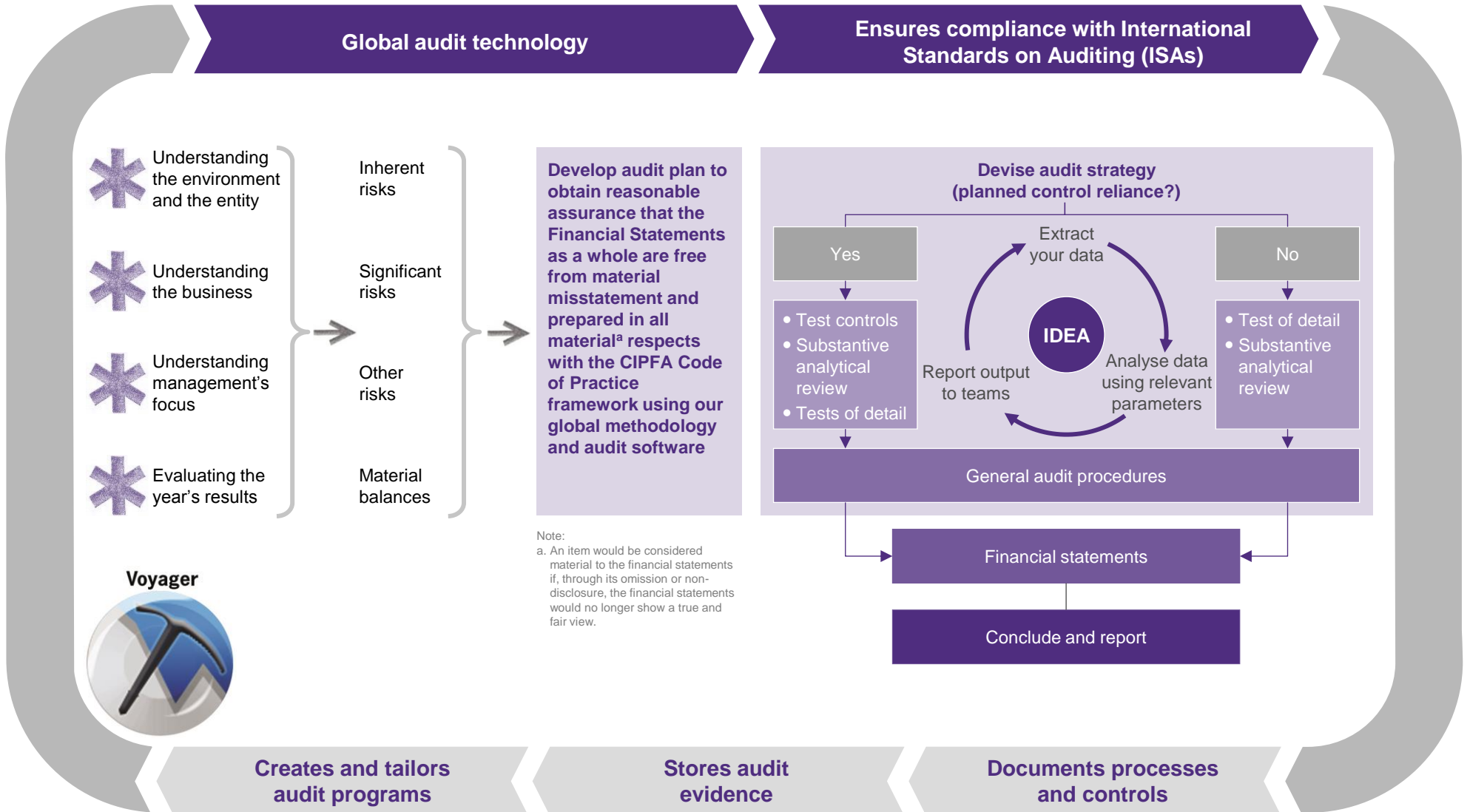
## Developments and other requirements

<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>• Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>• Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <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> </ul>
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## Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>• schools are accounted for correctly and in line with the latest guidance</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 consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2014/15 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> </ul>
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# 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 Warwickshire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Warwickshire County Council, mean that all forms of fraud are seen as unacceptable.</li></ul>
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><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions.</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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We will carry out testing including: <ul style="list-style-type: none"><li>• the completeness of the subsidiary system interfaces and control account reconciliations</li><li>• cut off testing of purchase orders and goods received notes(both before and after year end)</li><li>• a review of the accruals process</li><li>• a sample of creditor balances at 31/3/15</li></ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We will carry out testing including: <ul style="list-style-type: none"><li>• payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements.</li><li>• a sample of payments made in April and May to ensure payroll expenditure is recorded in the correct year.</li><li>• reviewing monthly trend analysis of total payroll.</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 will undertake a risk assessment to identify areas of risk to our VfM conclusion. We anticipate that we will undertake reviews of the:

- reasonableness of the approach adopted for 2014/15 budget setting
- adequacy of in year financial reporting and monitoring arrangements both for the 2014/15 budget and future service redesign requirements
- progress made in delivering the Medium Term Financial Strategy.
- level of reserves and the Council's reserves strategy
- Council's performance against key performance targets.

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.

# 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:

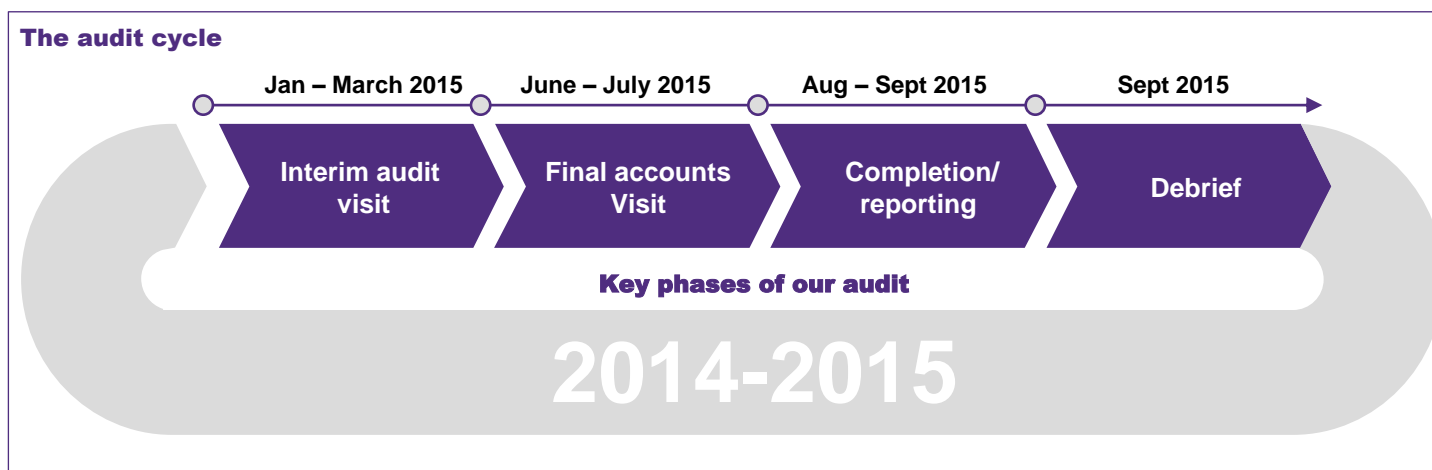
	Work performed and findings	Conclusion
<b>Internal audit</b>	We have not yet completed our review of internal audit's overall arrangements in accordance with auditing standards, or internal audit's work on the Council's key financial systems to date.	<p>We will complete our assessment of internal audit as part of our interim audit work and will report our findings to the Audit and Standards Committee in due course.</p> <p>In our 2013/14 Audit Plan we noted that internal audit had still to produce a formal self assessment against the requirements of the new Public Sector Internal Audit Standards. We will follow up progress in this area with internal audit as part of our interim audit work.</p>
<b>Walkthrough testing</b>	<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>	Our work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

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## Results of interim audit work cont'd

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	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.	No issues identified based on work undertaken to date. We will complete detailed testing on journal transactions during our interim and year end audit visits.

# Key dates



<b>Date</b>	<b>Activity</b>
<b>January 2015</b>	Planning
<b>January - March 2015</b>	Interim site visit
<b>12 February 2015</b>	Presentation of audit plan to Audit & Standards Committee
<b>June – July 2015</b>	Year end fieldwork
<b>August 2015 (tbc)</b>	Audit findings clearance meeting with Head of Finance
<b>9 September 2015</b>	Report audit findings to Audit & Standards Committee
<b>By 30 September 2015</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	126,052
<b>Total fees (excluding VAT)</b>	<b>126,052</b>

### 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

## Fees for other services

Service	Fees £
Certification of Teachers' Pension return	4,200

### 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](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.

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

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

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

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



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