



# The Audit Plan for Cannock Chase District Council

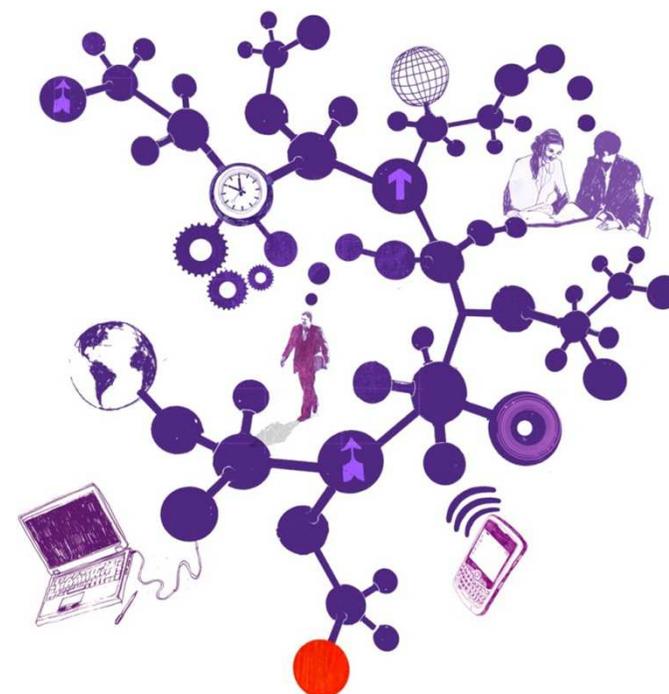
**Year ended 31 March 2014**

4 March 2014

**Grant Patterson**  
Engagement Lead  
T 0121 232 5296  
E [grant.b.patterson@uk.gt.com](mailto:grant.b.patterson@uk.gt.com)

**Andy Reid**  
Senior Audit Manager  
T 0121 232 5289  
E [andrew.s.reid@uk.gt.com](mailto:andrew.s.reid@uk.gt.com)

**Lisa Morrey**  
Executive  
T 01782 236497  
E [lisa.morrey@uk.gt.com](mailto:lisa.morrey@uk.gt.com)



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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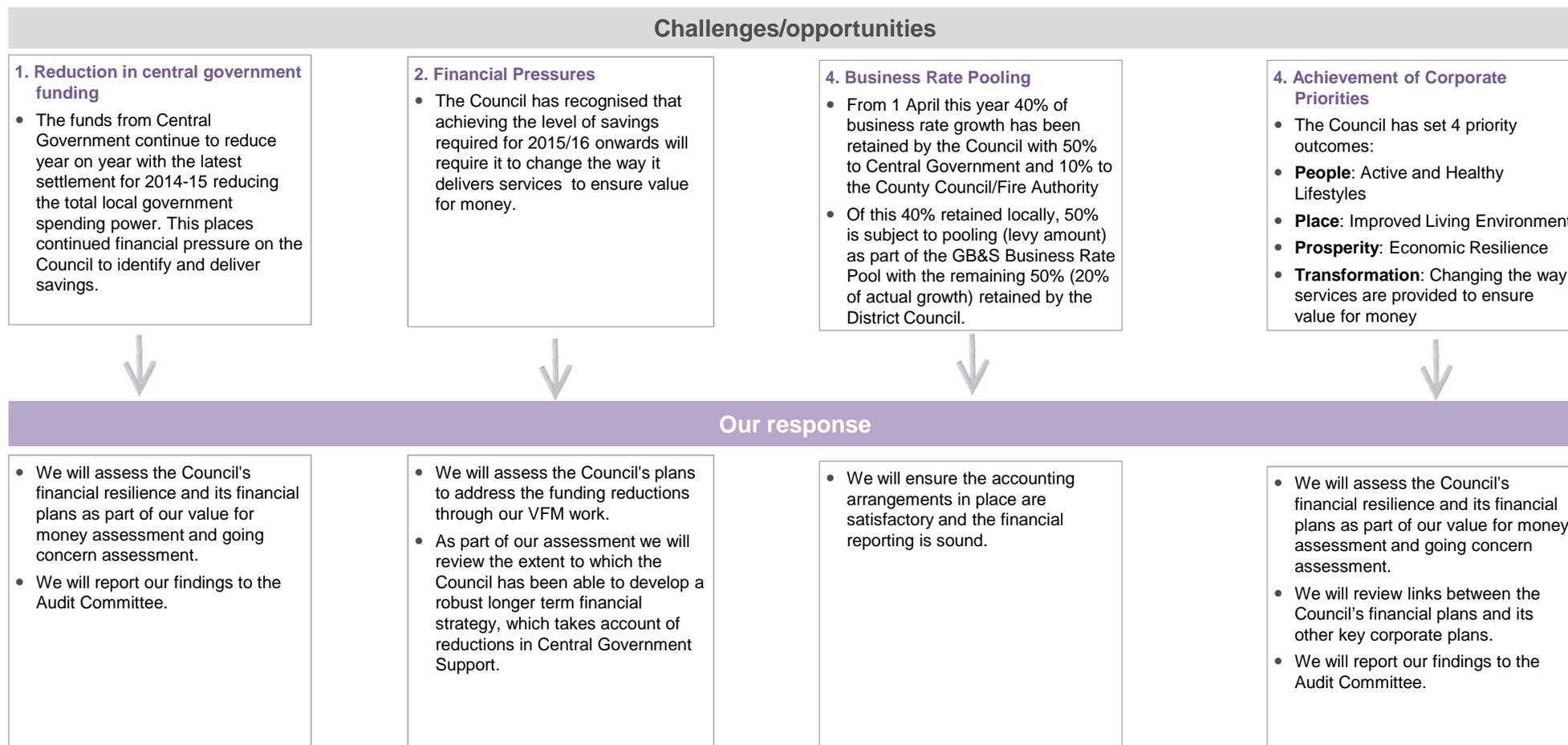
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# Understanding your business

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.

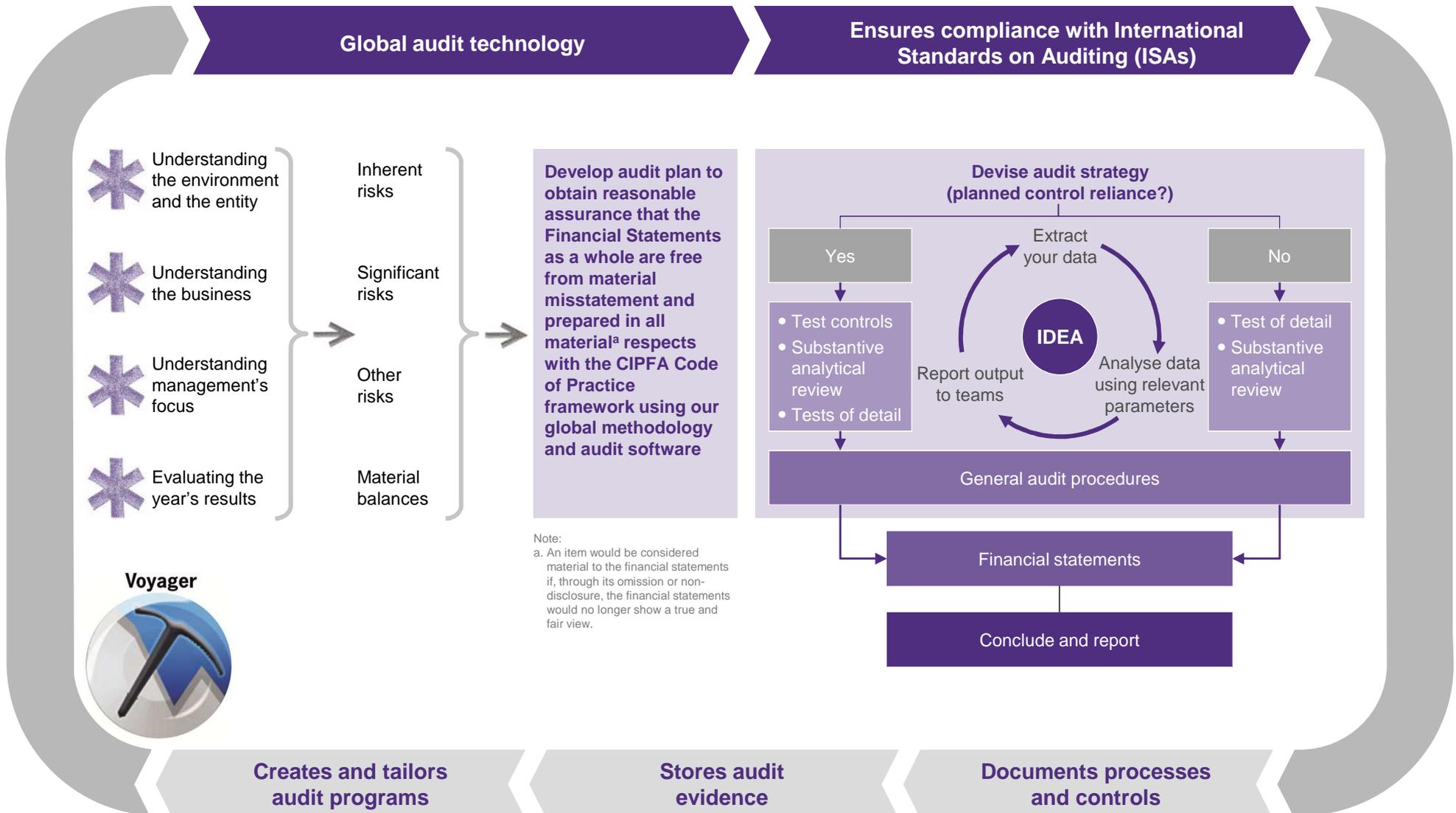
## Developments and other requirements

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 ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</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>
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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	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</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.	<b>Work planned:</b> <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 reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for operating expenses.</li> <li>• Walkthrough tests to confirm the operation of the controls.</li> </ul>	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> <li>• review of the completeness of the subsidiary system interfaces and control account reconciliations</li> <li>• review of monthly trend analysis of payments</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>• testing of a sample of operating expenses covering the period 1/4/13 to 31/3/14.</li> <li>• testing of a sample of creditor balances at 31/3/14</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for employee remuneration.</li> <li>• Walkthrough tests to confirm the operation of the controls.</li> </ul>	<p>We will carry out testing including:</p> <ul style="list-style-type: none"> <li>• review of payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements.</li> <li>• testing of 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> <li>• testing of a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14</li> <li>• agreement of the year end Revenue and Customs position.</li> </ul>

## Other risks identified continued

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 completed to date	Further work planned
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for welfare expenditure</li> <li>• Walkthrough tests to confirm the operation of the controls.</li> </ul>	We will carry out testing including: <ul style="list-style-type: none"> <li>• review of benefits system reconciliation to ensure that information from the benefits system can be agreed to the ledger and financial statements.</li> <li>• review of procedures in accordance with the methodology required to certify the housing benefit subsidy claim</li> <li>• testing of a sample of council tax benefit granted under the new Council Tax reduction scheme.</li> </ul>
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for housing rents revenues</li> <li>• Walkthrough tests to confirm the operation of the controls.</li> </ul>	We will carry out testing including: <ul style="list-style-type: none"> <li>• analytical review work in relation to housing rental income.</li> <li>• review of housing rents systems reconciliations to ensure that information from the housing rents system can be agreed to the ledger and financial statements.</li> </ul>
Property, Plant and Equipment	Property, plant and equipment activity not valid	<ul style="list-style-type: none"> <li>• Documentation of the processes and controls in place around the accounting for property, plant and equipment</li> <li>• Walkthrough tests to confirm the operation of the controls.</li> </ul>	We will carry out testing including : <ul style="list-style-type: none"> <li>• testing of a sample of additions and disposals during the financial year.</li> <li>• testing of valuations completed by the valuer.</li> </ul>

# 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:

- review the Council's medium to long term financial plans to determine that measures are in place to deliver the savings required in 2015/16 onwards
- review of the adequacy of in year financial reporting
- review progress on the development of savings plans
- review of development of plans for the use of the Better Care Fund
- follow up on other issues raised in our 2012/13 Financial Resilience Report.

The Council's Medium Term Financial Strategy as updated at January 2014 highlights continuing challenges around the 2016/17 financial position in particular and the Council may need to consider all possible options in order to address this position. We will continue to review progress made by the Council in developing plans to address these challenges before issuing our final VFM Conclusion and detailed Financial Resilience report in September 2014.

## Results of interim audit work

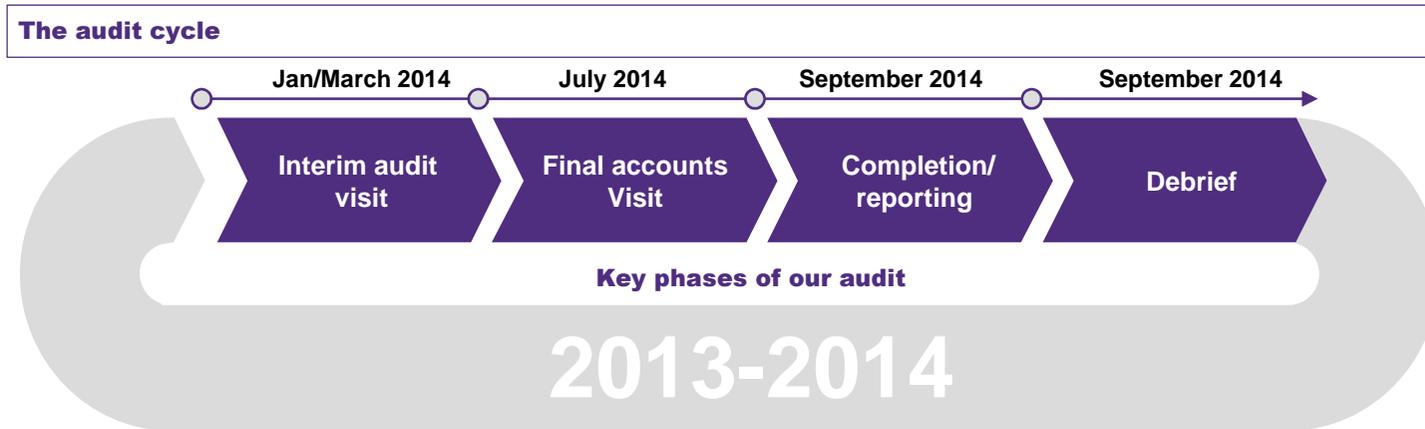
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. 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>We have continued to liaise with internal audit during the course of our work.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>To date, our review of internal audit work has not identified any weaknesses which impact on our audit approach.</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> <ul style="list-style-type: none"> <li>• operating expenses</li> <li>• employee remuneration</li> <li>• welfare expenditure</li> </ul> <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>
<b>Review of information technology controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our understanding. A small number of minor deficiencies have been identified and we will be agreeing an action plan with Management to address these deficiencies.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

## Results of interim audit work continued

	Work performed	Conclusion
<b>Journal entry controls</b>	We are currently reviewing the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. Once the strategy has been identified we will undertake detailed testing on journal transactions for the first nine months of the financial year, by extracting 'large' and 'unusual' entries for further review.	We will complete our initial testing of the first nine months of the year at our interim audit visit. Further testing will be undertaken at our accounts visit to cover the remainder of the year including year end journals.
<b>Early substantive testing</b>	Early substantive testing is planned to be undertaken at our second interim audit visit in March 2014 in relation to operating expenses and employee remuneration.	We will complete our initial testing for the first nine months of the year at our interim visit. Further testing will be undertaken at our accounts visit to cover the remainder of the year including year end journals.
<b>Value for money</b>	An initial review of the Council's arrangements for securing economy, efficiency and effectiveness and its effectiveness in its use of resources are in progress.	Our review of your value for money arrangements are currently in progress. The outcome of this review will be reported in our Audit Findings Report and Annual Audit Letter.
<b>Follow up of prior year recommendations</b>	We have reviewed progress to date in implementing our 2012/13 recommendations.	<p>The Council's s106 reserves at 31.3.13 were £936k.</p> <p>Last year we recommended that the Council undertake a detailed review of s106 balances in 13/14 to consider</p> <ul style="list-style-type: none"> <li>• whether there are balances which should be reclassified from reserves to useable capital receipts where the scheme had ended</li> <li>• to which balances the Council's Town Centre S.106 Monies Protocol will, and will not, need to be applied.</li> </ul> <p>As at March 2014 the Council had not yet undertaken such a review.</p>

## Key dates



Date	Activity
January 2014	Planning
January and March 2014	Interim site visit
26 <sup>th</sup> March 2014	Presentation of audit plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Head of Financial Services
September 2014	Report audit findings to those charged with governance
September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	68,578
Grant certification	14,400
<b>Total fees (excluding VAT)</b>	<b>82,978</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

### 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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