



The Audit Plan for Mid Devon District Council

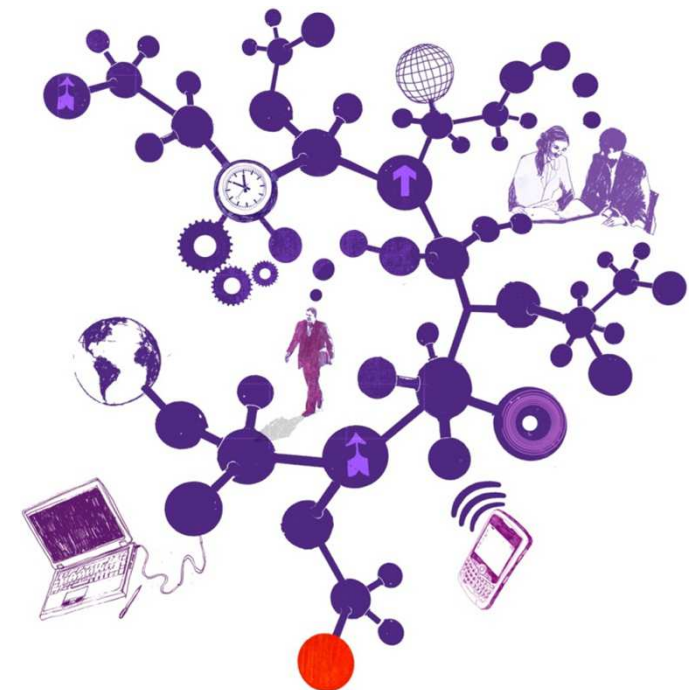
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2013

Steve Malyn
Director
T 0117 30 57862
M 07880 456136
E Steve.G.Malyn@uk.gt.com

Steve Johnson
Audit Manager
M 07880 456134
E Steve.P.Johnson@uk.gt.com

Sarah Martin
Executive
T 0117 30 57861
E Sarah.J.Martin@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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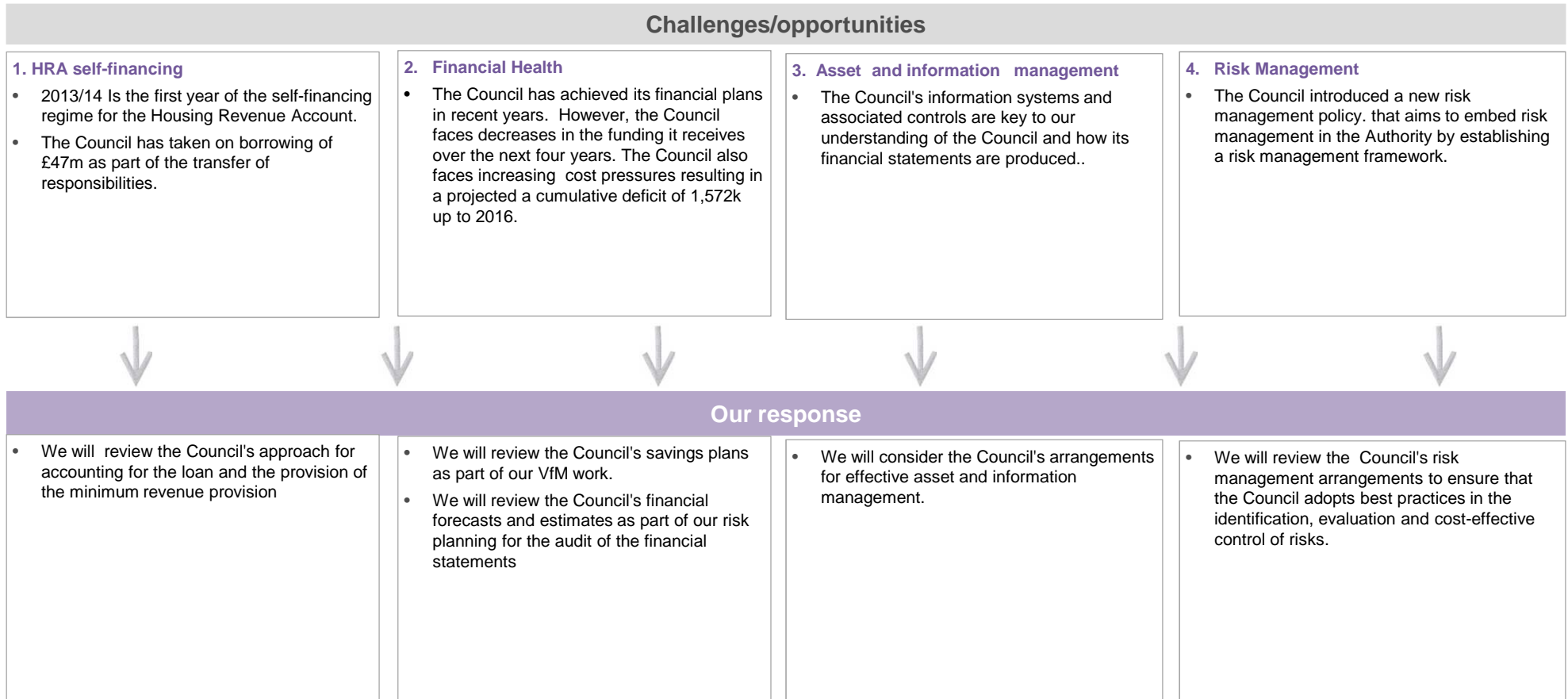
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Understanding your business

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.



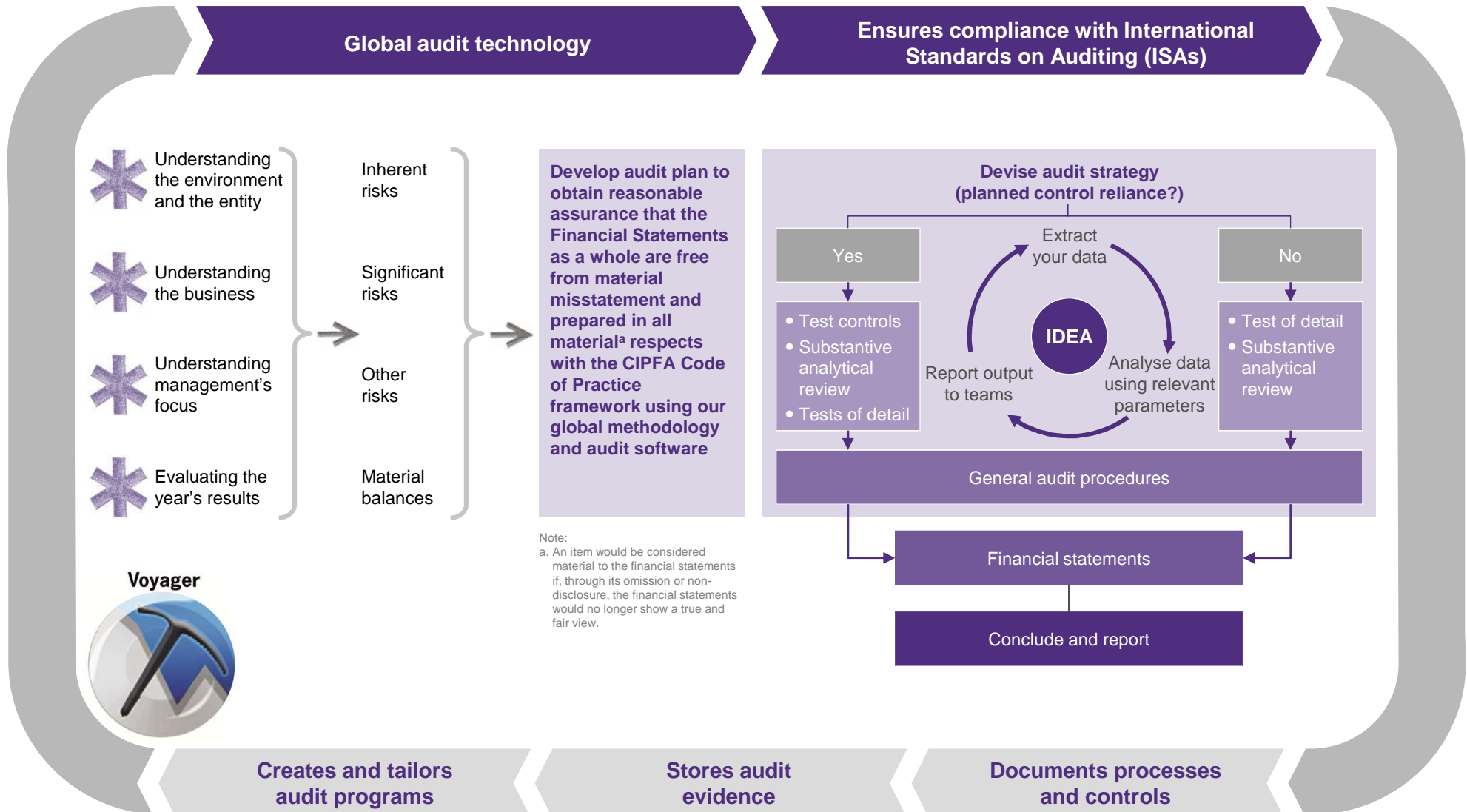
Developments relevant to your business and the audit

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 and associated guidance.

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Transfer of assets to Academies • Recognition of grant conditions and income • Self financing Housing Revenue Account 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Low	None		✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration accruals understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration will be incorrectly calculated	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – Housing revenue	Yes	HRA	Medium	Other	Housing revenue transactions not recorded	✓
Cost of services – Housing revenue	Yes	HRA	Medium	Other	Recorded debtors not valid	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Precepts and Levies	No	Council Tax	Low	None		×
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	No	Property, Plant & Equipment	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	No	Provision	Low	None		×
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

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>Work completed to date:</p> <ul style="list-style-type: none"> • Review of revenue recognition policies <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of revenue recognition policies • Performance of attribute testing on material revenue streams
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>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries up to 31 January 2013 • Review of unusual significant transactions up to 31 January 2013 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries post 31 January 2013 • Review of unusual significant transactions post 31 January 2013

Other risks

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).

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"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Review of payments before and after year end to ensure that they are allocated to the correct year and correctly recognised Substantively test a sample of operating expenses
Employee remuneration	Employee remuneration expenses not correct	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Substantively test a sample of remuneration transactions
Employee remuneration	Employee remuneration expenses will be incorrectly calculated	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Substantively test a sample of remuneration transactions
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Substantively test a sample of welfare claims Review the reconciliation of the housing benefit system to the general ledger
Housing Rent Revenue Account	Housing revenue transactions not recorded.	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Substantive analytical review of housing rent revenue Review of control accounts and creation of tenancy

Other risks

Other reasonably possible risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Recorded debtor not valid	<ul style="list-style-type: none"> Review of system documentation and walkthrough of transaction 	<ul style="list-style-type: none"> Substantive analytical review of housing rent revenue Review of control accounts and creation of tenancy
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Work will be undertaken as part of year end procedures 	<ul style="list-style-type: none"> Review the system documentation and walkthrough of a transaction Substantive test of a sample of transactions contained within the asset register
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Work will be undertaken as part of year end procedures 	<ul style="list-style-type: none"> Review the system documentation and walkthrough of a transaction Substantively test the accounting treatment for the valuation to ensure it has been correctly applied

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement

	Work performed	Conclusion/ Summary
Risk management arrangements	We have reviewed the Council's risk management arrangements. We have considered the Council's approach as set out in the risk management strategy and its implementation across the Council.	<p>Risk management is not effectively embedded throughout the Council.</p> <p>2 of the 3 business plans reviewed did not include consideration of the risks to that business sector.</p> <p>There has been no quarterly reporting of key business risks to Cabinet, Scrutiny Committee, PDGs and the Audit Committee between the period 01/04/12 and 20/02/13.</p>
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	<p>Housing rents and welfare expenditure</p> <p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.</p> <p>Employee remuneration</p> <p>Significant weaknesses were identified in the control environment for this system. There are no segregation of duty controls in place, all processes within the system are operated by the Payroll manager with no review.</p> <p>Operating expenses</p> <p>Bank reconciliations were not completed in a timely manner within the current financial year, therefore we are not able to place reliance on the control environment.</p> <p>Plant, property and equipment</p> <p>Walkthrough testing of this system has yet to be completed</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
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 identified a material weakness in the authorisation of journals which is likely to adversely impact on the Council's control environment or financial statements.(see conclusion/summary).</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. Within our testing of unusual items we have considered journals input by senior finance personnel over which no review or authorisation controls exist. The head of finance has access to input journals with no review of these transactions. No issues have been identified that require to be reported.</p>	<p>No authorisation of journals is undertaken. Management place reliance on budget monitoring processes to address this lack of controls.</p> <p>We will continue to monitor this position through the closedown process.</p>
Internal audit	<p>We have reviewed the overall arrangements for internal audit in accordance with auditing standards.</p>	<p>We are not proposing to rely on the work of internal audit.</p>
Review of the information technology (IT) controls	<p>In April our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal control system.</p>	<p>We have yet to conclude our review and we will report the results to management and summarise any issues with those charged with governance before the financial statements are approved.</p>

Value for Money

Introduction

The Code of Audit Practice 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.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee. We do not plan to undertake any other specific reviews to support our VfM conclusion.

The results of all our local VfM audit work and key messages 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.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will review the financial health of the Council by looking at

- key indicators of financial performance
- it's approach to strategic financial planning
- it's approach to financial governance; and
- it's approach to financial control

Logistics and our team

The audit cycle



Date	Activity
Jan/Feb 2012/13	Planning meeting
Feb/march 2013	Interim site work
19 March 2013	The audit plan presented to Audit Committee
15 July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
24 September 2013	Audit Committee meeting to report our findings
Sept 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

Our team

Steve Malyn

Director

T 01173057862

M 07880 456136

E Steve.G.Malyn@uk.gt.com

Steve Johnson

Audit Manager

M 07880 456134

E Steve.P.Johnson@uk.gt.com

Sarah Martin

Executive

T 01173057861

E Sarah.J.Martin@uk.gt.com

Fees and independence

Fees

	£
Council audit	62,700
Grant certification	12,750
Total	75,450

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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 £
None	Nil

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		✓

Appendices

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	All journals over a pre-set limit should be reviewed.	M	Disagree. The Head of Finance considers that there is an adequate audit trail in place, that real controls were in place for year end and that the journals did not involve payments to third parties.	n/a
2	Bank reconciliations should be completed promptly and reviewed by senior finance staff.	H	Accepted. The bank reconciliation will be up to date before preparation of the Financial Statements.	30 April 2013
3	Controls to ensure segregation of duties should be establish within the payroll system	H	Agreed. The new integrated payroll/HR system is currently being implemented	1 April 2013
4	All business plans should include risk relating to the service.	L	Agreed, All new business plans will include consideration of the risks to that business sector.	Ongoing
5	Significant business risks should be reported to members quarterly in line with the councils Risk Management Strategy.	M	Accepted. Quarterly reporting will be implemented for the next round of Council Committees.	Ongoing



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