

BABERGH DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE

Audit for the year ending 31 March 2015

18 March 2015

EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Babergh District Council for the 2014/15 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks we are currently aware of:

FINANCIAL STATEMENTS

Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.

Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or an inappropriate use of estimates in calculating revenue.

The Council plans to manually transfer opening balances from the Agresso closing trial balance to the new Integra main financial system. This increases the inherent risk of material error in the data transfer process. We will respond to the risk by increasing our testing of opening balances to ensure that balances have accurately transferred.

The percentage allocation of non-payroll costs between Babergh DC and Mid Suffolk DC is determined by officers and budget holders coding the expenditure to services. There are limited controls and validation checks over this process and there is a risk that the cost sharing arrangements are open to potential manipulation between the Councils. We will respond to the risk by testing a sample of invoices split across the Councils to review and challenge the reasonableness of cost allocation.

USE OF RESOURCES

Government continues to reduce core funding for local government which has a significant impact on the financial resilience of the Council in the medium term. The Council needs to deliver a Transformation Programme in order to achieve its strategic priorities and is forecasting a 15.7% reduction in core funding in 2015/16 alone. The medium term financial strategy forecasts savings or additional revenue of £4.3m is required over the next four years in relation to the General Fund for the Council to be financially sustainable.

Fees

The proposed audit fee for the year is £65,082 plus VAT.

Our Planning Letter 2014/15 had previously proposed a fee of £64,182, and the Audit Commission has since increased the scale fee for all district councils by £900 to reflect the work on NDR income previously undertaken as part of the certification regime.

Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	July 2015
Final report to those charged with governance	21 September 2015
Independent auditor's report including: <ul style="list-style-type: none">Opinion on the financial statementsValue for money conclusionCertificate	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
Annual Audit Letter	October 2015

SCOPE OF THE AUDIT

Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Head of Service (Corporate Resources) and the Audit Committee. When communicating with the Audit Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Financial statements

The financial statements audit requires that we obtain assurance:

- That the financial statements give a true and fair view of the financial position of the Council at the year end and the expenditure and income for the year
- That the financial statements have been prepared properly in accordance with relevant legislation and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
- That the information given in the explanatory foreword in the Statement of Accounts is consistent with the financial statements
- That the Annual Governance Statement meets the disclosure requirements and is not misleading or inconsistent with our knowledge.

Internal controls

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with internal audit to minimise duplication and the overall level of audit resource input. We have planned the audit on the basis that we will be able to place full reliance on the work of internal audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the Head of Service (Corporate Resources) and Head of Internal Audit.

We will meet with the Chair of the Audit Committee and seek confirmation of how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £860,000 (2% of average gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £18,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit Committee are required to consider and we will request that you correct them.

Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The Council's return is below the threshold for full audit and therefore we undertake limited testing to agree the consistency of property, plant and equipment and pension balances included in the DCT.

Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting 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).

Our work will include reviewing the Council's medium term financial strategy and proposals to deliver the necessary savings in the coming years in response to expected reductions in Government grant funding for local authorities.

Engagement partner

Leigh Lloyd-Thomas is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Leigh in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

Upon the demise of the Audit Commission on 31 March 2015, Public Sector Audit Appointments Ltd (a company created by the Local Government Association) will take over responsibility for audit appointments, including investigating complaints.

Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

Future audit arrangements

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission's current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. Public Sector Audit Appointments Ltd will manage the existing contracts through this period.

Several of the Audit Commission's functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission's data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission's counter-fraud function will transfer to a new public sector 'Counter Fraud Centre' to be established by the Chartered Institute of Public Finance and Accountancy.

This is also BDO's final year as auditors of Babergh District Council and the Council's future auditors from 2015/16 onwards will be EY.

RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
OPENING BALANCES	The Council plans to manually transfer opening balances from the Agresso closing trial balance to the new Integra main financial system. This increases the inherent risk of material error in the data transfer process. We will respond to the risk by increasing our testing of opening balances to ensure that balances have accurately transferred.	Accuracy of opening balances	Increased sample testing over opening balances to ensure they agree to audited closing balances.

FINANCIAL STATEMENTS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
COST SHARING	The percentage allocation of non-payroll costs between Babergh DC and Mid Suffolk DC is determined by officers and budget holders coding the expenditure to services. There are limited controls and validation checks over this process and there is a risk that the cost sharing arrangements are open to potential manipulation between the Councils. We will respond to the risk by testing a sample of invoices split across the Councils to review and challenge the reasonableness of cost allocation.	Accuracy of shared non-payroll expenditure	<p>Increased sample testing over the accuracy of shared non-payroll costs apportioned across the two Councils and review of the reasonableness of apportionments.</p> <p>Undertake procedures analysing the allocation of non-payroll costs analytically compared to service activity levels for both Councils, including review of analysis carried out by management.</p>
USE OF RESOURCES			
RISK	RISK DETAIL	AUDIT RESPONSE	
FINANCIAL RESILIENCE	Government continues to reduce core funding for local government which has a significant impact on the financial resilience of the Council in the medium term. The Council needs to deliver a Transformation Programme in order to achieve its strategic priorities and is forecasting a 15.7% reduction in core funding in 2015/16 alone. The medium term financial strategy forecasts savings or additional revenue of £4.3m is required over the next four years in relation to the General Fund for the Council to be financially sustainable.	We will review the Council's MTFS to assess the reasonableness of assumptions and how the Council is addressing financial pressures. We will also review the planned utilisation of the Transformation reserves and delivery against in year plans and savings.	

AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

FINANCIAL STATEMENTS	
Interim visit	April - June 2015
Final audit visit	August - Sept 2015 Clearance meeting early September 2015
Independent auditor's report covering: <ul style="list-style-type: none"> • Opinion on the financial statements • Value for money conclusion • Certificate 	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	Jan - August 2015
Value for money conclusion	By 30 September 2015
REPORTING	
Report on any significant deficiencies in control (if required)	July 2015
Final report to those charged with governance	21 September 2015
Annual Audit Letter	October 2015

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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