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Meeting	Audit Committee
Date	29 April 2014
<b>Subject</b>	<b>Audit Plan 2013/14</b>
Report of	Chief Operating Officer
Summary	This report advises the committee of Grant Thornton's Audit Plan for 2013/14 and provides an update on results of interim audit work to date
Officer Contributors	Paul Thorogood – Head of Finance, Financial Services
<b>Status (public or exempt)</b>	Public
Wards affected	Not applicable
Key decision	No
Enclosures	Appendix A – Audit Plan 2013/14
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in	Not applicable
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## **1. RECOMMENDATIONS**

- 1.1 The Audit Committee are asked to note Grant Thornton's Audit Plan for 2013/14.**
- 1.2 The Audit Committee are asked to note the audit fee of £224,100 for 2013/14 as set out in paragraph 9.14.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Grant Thornton's Audit Plan for 2012/13 was noted at the Audit Committee of 8 April 2013.
- 2.2 The indicative audit fee of £224,100 for 2013/14 was noted at Audit Committee on 24 July 2013.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 The Audit Plan 2013/14 will assess fundamental aspects of financial standing and performance management in Barnet, that relates to the Council's 'Better Services with Less Money' corporate priority.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The Audit Plan 2013/14 highlights the Council's statutory responsibility in respect of producing the financial statements. Without appropriate close down processes in place and references to local government financial reporting policies there is a risk that statutory deadlines may be missed or accounting policies misinterpreted without the appropriate reference to the external auditors views or concerns. The consequence of this could result in qualified financial statements or a qualified value for money opinion.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 The Audit Plan 2013/14 has the potential to cover the inspection and assessment of all services within the authority that, in turn, impacts on all members of the community.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, ICT, Property, Sustainability)**

- 6.1 This report sets out the timeline and framework for the assessment of the Council's financial reporting, management and standing, as well as value for money.

## **7. LEGAL ISSUES**

- 7.1 None in the context of this report.

## **8. CONSTITUTIONAL POWERS**

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "to consider the external auditor's annual letter" and "to comment on the scope and depth of external audit work and to ensure it gives value for money"

## **9. BACKGROUND INFORMATION**

- 9.1 The purpose of the Audit Plan is to highlight the key elements of Grant Thornton's 2013/14 external audit strategy for the Council. It is compiled based on their audit risk

assessment and discussions of key risks with management. It is reported to the Audit Committee as those charged with governance for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

9.2 The audit plan identifies that Grant Thornton are responsible for performing the audit in accordance with ISAs (UK and Ireland) and to give an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance.

9.3 The Audit Plan 2013/14 includes details on the audit approach to be followed by Grant Thornton as well as an update on their response to key risks from the results of interim audit work carried out.

9.4 The Audit Plan 2013/14 sets out a number of challenges and opportunities that Grant Thornton have identified and taken into consideration in planning their audit. These challenges and opportunities are as follows:

#### 9.4.1 Managing the Council's Finances

Grant Thornton will monitor the Council's progress in developing a balanced budget for 2014/15 and responding to financial challenges as part of their value for money conclusion as well as reviewing progress against the planned capital programme.

#### 9.4.2 One Barnet Transformation Programme

Grant Thornton will consider the accounting treatment in relation to both the CSG (Customer Support Group) and RE (Regional Enterprise) contracts and consider the performance monitoring arrangements in place around the CSG contract and refuse contract as part of their value for money conclusion.

#### 9.4.3 The Better Care Fund

Grant Thornton will review the progress made by the Council to agree the Better Care Fund with its partners and confirm arrangements are in place to manage the funding moving forward.

#### 9.4.4 Welfare Reform Act

Grant Thornton will continue to monitor progress against the Welfare Reform Act, recovery rates and the impact on the medium term financial plan as part of their value for money conclusion.

9.5 The Audit Plan 2013/14 also details key developments and other requirements that Grant Thornton have identified and considered in planning their audit. These are as follows:

#### 9.5.1 Financial Reporting

Grant Thornton will ensure that:

- The Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and substantive testing.
- Schools are accounted for correctly and in line with the latest guidance.

## 9.5.2 Legislation

Grant Thornton will discuss legislative changes with Council officers and those charges with governance, providing a view where appropriate.

## 9.5.3 Corporate Governance

Grant Thornton will review:

- The arrangements the Council has in place for the production of the Annual Governance Statement.
- The Annual Governance Statement and the explanatory foreword to consider whether they are consistent with their knowledge.

## 9.5.4 Pensions

Grant Thornton will review how the Council dealt with the impact of the 2013/14 changes through their meetings with senior management.

## 9.5.5 Financial Pressures

Grant Thornton will review:

- The Council's performance against the 2013/14 budget, including consideration of performance against the savings plan.
- Financial resilience as part of their value for money conclusion.

## 9.5.6 Other Requirements

Grant Thornton will:

- Carry out work on the whole of government accounts pack in accordance with requirements.
- Certify grant claims and returns in accordance with Audit Commission requirements.

9.6 Grant Thornton will undertake a risk based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts. Grant Thornton have identified the following risks that the audit approach will focus on:

### 9.6.1 Significant Risks Identified

These risks are not specific to Barnet and are applicable to all audits under Auditing Standards. They are:

- The revenue cycle includes fraudulent transactions
- Management override of controls

### 9.6.2 Other Risks Identified

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 year's audit.

The interim audit work completed by Grant Thornton in January 2014 has focussed on the majority of these areas, where no issues have been identified as a result of the work and tests completed.

- 9.7 Grant Thornton are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 9.8 As part of the interim audit work and in advance of the final accounts audit fieldwork, Grant Thornton:
- Considered the effectiveness of the Internal Audit function
  - Considered Internal Audit's work on the Council's key financial systems
  - Carried out walkthrough testing to confirm whether controls are implemented according to their understanding in areas where they have identified a risk of material misstatement
  - Carried out a review of information technology controls
  - Undertook some early substantive work to help reduce the testing burden at the final accounts stage
- 9.9 Grant Thornton 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 for the Council.
- 9.10 No issues were noted and in year internal controls were observed to have been implemented in accordance with documented procedures. Grant Thornton intends to gain further assurance in this area through substantive audit testing of year end balances.
- 9.11 The substantive work undertaken for the first nine months of the financial year on the following areas did not result in any significant issues, inconsistencies or errors being identified:
- Operating expenses
  - Employee remuneration
  - Welfare expenditure
  - Housing rent revenue account
  - Property, plant and equipment
- 9.12 Grant Thornton are required 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 to provide a conclusion on the Council's Value for Money. The 2013/14 value for money conclusion will be based on two reporting criteria specified by the Audit Commission:
- The Council has proper arrangements in place for securing financial resilience
  - The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness
- 9.13 Grant Thornton will do this by undertaking the following risk based work focussing on the Council's financial governance, strategic financial planning and financial control. Specifically they will focus on:

- Reviewing and updating their risk assessment to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control.
- Considering the performance monitoring in place around the Capita CSG contract, comparing this to the monitoring in place around the new refuse contract. This will include particular consideration of how value for money is intended to be achieved and measured.
- Considering the response made to the elector objections raised in 2012/13 and the progress made against improvement plans.

9.14 The audit plan confirms the indicative audit fee of £224,100 for 2013/14 which was presented at Audit Committee on 24 July 2013. The audit plan fee is set by the Audit Commission under Section 7 of the Audit Commission Act 1998 and is therefore not negotiable by the Council.

## 10. LIST OF BACKGROUND PAPERS

10.1 None.

<b>Cleared by Finance (Officer's initials)</b>	<b>AD</b>
<b>Cleared by Legal (Officer's initials)</b>	<b>CE</b>