



Audit Committee

30th April 2015

Title	Audit Plan 2014/15
Report of	Chief Operating Officer
Wards	All
Status	Public
Enclosures	Appendix A – Audit plan 2014/15
Officer Contact Details	Paul Thorogood – Paul.Thorogood@Capita.co.uk - 07725 652910

Summary

This report advises the committee of Grant Thornton's Audit Plan for 2014/15 and provides an update on results of interim audit work to date

Recommendations

1. The Audit Committee are asked to note Grant Thornton's Audit Plan for 2014/15
2. The Audit Committee are asked to note the audit fee of £226,700 for the 2014/15 Council Audit as set out in paragraph 6.11

1. WHY THIS REPORT IS NEEDED

- 1.1 The purpose of the Audit Plan is to highlight to the committee the key elements of Grant Thornton's 2014/15 external audit strategy for the Council.

2. REASONS FOR RECOMMENDATIONS

- 2.1 Grant Thornton's Audit Plan for 2013/14 was noted at the Audit Committee of 29 April 2014. This Report is to recommend Grant Thornton's Audit plan for 2014/15.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 Grant Thornton's Audit Plan for 2014/15 will dictate what is reported to the Audit Committee as part of the audit process.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Audit Plan will assess fundamental aspects of financial standing and performance management in Barnet, that relates to the key theme of 'value for money' relating to the Council's corporate priorities.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 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. The Council audit fee of £226,700 will be paid out of Corporate Fees from Central Expenses.

5.3 Legal and Constitutional References

- 5.3.1 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".

5.4 Risk Management

- 5.4.1 The Audit Plan 2014/15 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.

5.5 Equalities and Diversity

- 5.5.1 The Audit Plan 2014/15 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.

5.6 Consultation and Engagement

5.6.1 None

6. BACKGROUND INFORMATION

6.1 Grant Thornton's Audit Plan for 2013/14 was noted at the Audit Committee of 29 April 2014.

6.2 The purpose of the Audit Plan is to highlight the key elements of Grant Thornton's 2014/15 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.

6.3 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.

6.4 The Audit Plan 2014/15 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.

6.5 **The Audit Plan 2014/15 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:**

6.5.1 Financial performance pressures reported within budgets and medium term financial strategy to the March 2015 Council in meeting.

6.5.2 Increasing demand on services continues to be driven by a growing population. To deal with this, the Council has recognised that there are opportunities for growth in the borough. Examples of this include significant regeneration and redevelopment projects.

6.5.3 There are opportunities for increased collaborative work with the NHS through the development of new working arrangements to deliver the Better Care Fund (BCF). NHS England approved the Barnet BCF Plan on 6 February 2015. From April 2015, the Department of Health requires the Council and NHS Barnet Clinical Commissioning Group (CCG) to pool budgets allocated for the delivery of the schemes of work stated in the BCF Plan. This will also enable the Council, the CCG and the Health and Well-Being Board to realise the target benefits and outcomes identified.

- 6.6 **The Audit Plan 2014/15 also details key developments and other requirements that Grant Thornton have identified and considered in planning their audit. These are as follows:**
- 6.6.1 Grant Thornton will assess the accuracy and validity of financial reporting through;
- The Council complies with the requirements of the CIPFA Code of Practice through discussions with management and substantive testing.
 - Schools are accounted for correctly and in line with the latest guidance.
- 6.6.2 Grant Thornton will discuss legislative changes with Council officers and those charges with governance, providing a view where appropriate specifically referencing the Local Government Finance Settlement.
- 6.6.3 Grant Thornton will consider and review Corporate Governance and in particular the Annual Governance Statement and Explanatory Forward.
- 6.6.5 Grant Thornton will consider and review the Better Care Fund plans.
- 6.6.6 Grant Thornton will review financial pressures in managing service provision with less resource and Progress against savings plans.
- 6.6.7 Other requirements that Grant Thornton will consider include the Council's Whole of Government accounts pack on which Grant Thornton will provide an audit opinion on and Council grant claims and returns on which audit certification is required.
- 6.7 **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 significant risks that the audit approach will focus on:**
- The revenue cycle includes fraudulent transactions
 - Management over-ride of controls
 - Risk of new accounting system producing balances that are materially misstated
- 6.7.1 These risks are not specific to Barnet and are applicable to all audits under Auditing Standards.
- 6.8 **Grant Thornton will evaluate the design and determine the implementation of the Council's controls, including relevant control activities, over those risks for which 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.**
- 6.8.1 As a result of Grant Thornton's planning these areas have been identified as operating expense, employee remuneration and welfare expenditure. The

interim audit work completed by Grant Thornton has focussed on these areas, where, to date, no issues were identified as a result of this work.

6.8.2 Grant Thornton intends to gain further assurance in these areas through substantive audit testing, cut-off testing, analytical reviews, trend analysis and system/control account reconciliations.

6.9 **In accordance with the code, 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.**

6.9.1 The 2014/15 value for money conclusion will be based on two reporting criteria specified by the Audit Commission:

- The organisation has proper arrangements in place for securing financial resilience
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

6.9.2 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:

- Review and update the risk assessment agreed during our 2014/15 financial resilience review to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control.
- Consider any reports issued by key regulators (e.g. OFSTED) to ensure that potential impacts are suitably managed by the Council.

6.10 **As part of the interim audit work and in advance of the final accounts audit fieldwork, Grant Thornton:**

6.10.1 Considered Internal Audit's overall arrangements against the Public Sector Internal Audit Standards and the functions work on the Council's key financial systems to date. No issues were identified as a result of this work.

6.10.2 Completed walkthrough tests of controls operating in areas where Grant Thornton considered that there is a risk of material misstatement to the financial statements. No issues were identified as a result of this work.

6.10.3 Obtained an understanding of the overall control environment relevant to the preparation of the financial statements. No issues were identified as a result of this work.

- 6.10.4 Are currently performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. This includes a follow up of the issues that were raised last year. To date, no issues were identified as a result of this work and going forward any findings will be reported to the Audit Committee.
- 6.10.5 Reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. No issues were identified as a result of this work.
- 6.10.6 Considered the Council's approach to not produce Group accounts on the grounds of materiality, in line with prior year, and are not minded to challenge this approach.
- 6.11 The audit plan confirms the indicative audit fee of £226,700 for the 2014/15 Council audit. 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.