



The Audit Plan for Devon County Council

Year ended 31 March 2015

5 March 2015

Elizabeth Cave

Director

T 0117 305 7885

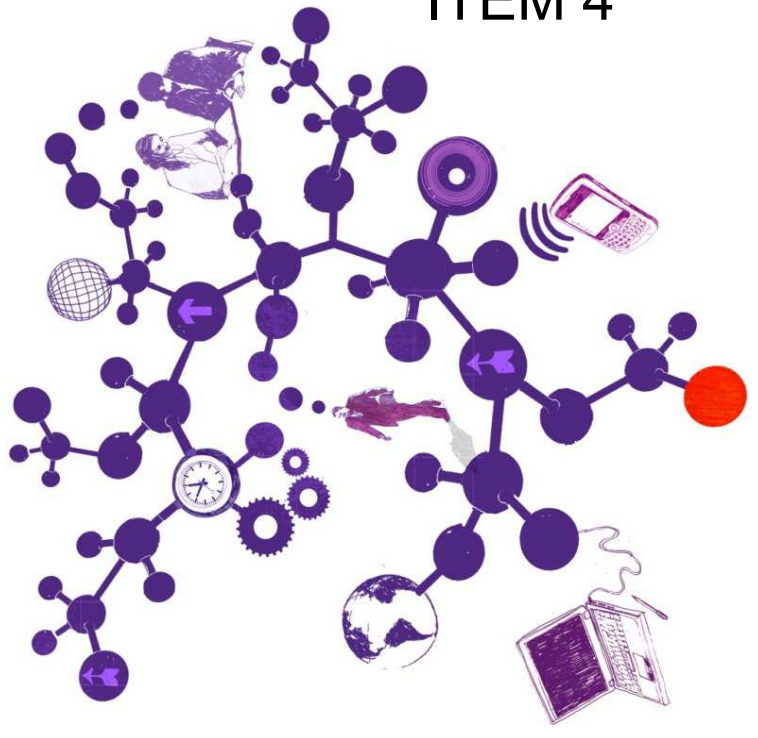
E liz.a.cave@uk.gt.com

Jackie Saunders

In-Charge Auditor

T 0117 305 7844

E jackie.a.saunders@uk.gt.com



ITEM 4

ITEM 4

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.

Contents

Section	
Understanding your business	4
Developments relevant to your business and the audit	5
Our audit approach	6
Significant risks identified	7
Other risks identified	8
Value for Money	9
Results of interim work	10
Key dates	12
Fees and independence	13
Communication of audit matters with those charged with governance	14

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

<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Changes to the recognition of school land and buildings on local authority balance sheets Adoption of new group accounting standards (IFRS 10, 11 and 12) 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement Welfare reform act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<p>4. Highways infrastructure</p> <ul style="list-style-type: none"> Changes to accounting policies require that from 1st April 2016, Councils are required to report highways infrastructure assets at fair value on the Balance Sheet As a result of this change, the Council will be required to restate previous year comparative figure in the 2016/17 accounts and in addition provide an opening balance sheet as at 1st April 2015 	<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
--	---	---	---	--	--

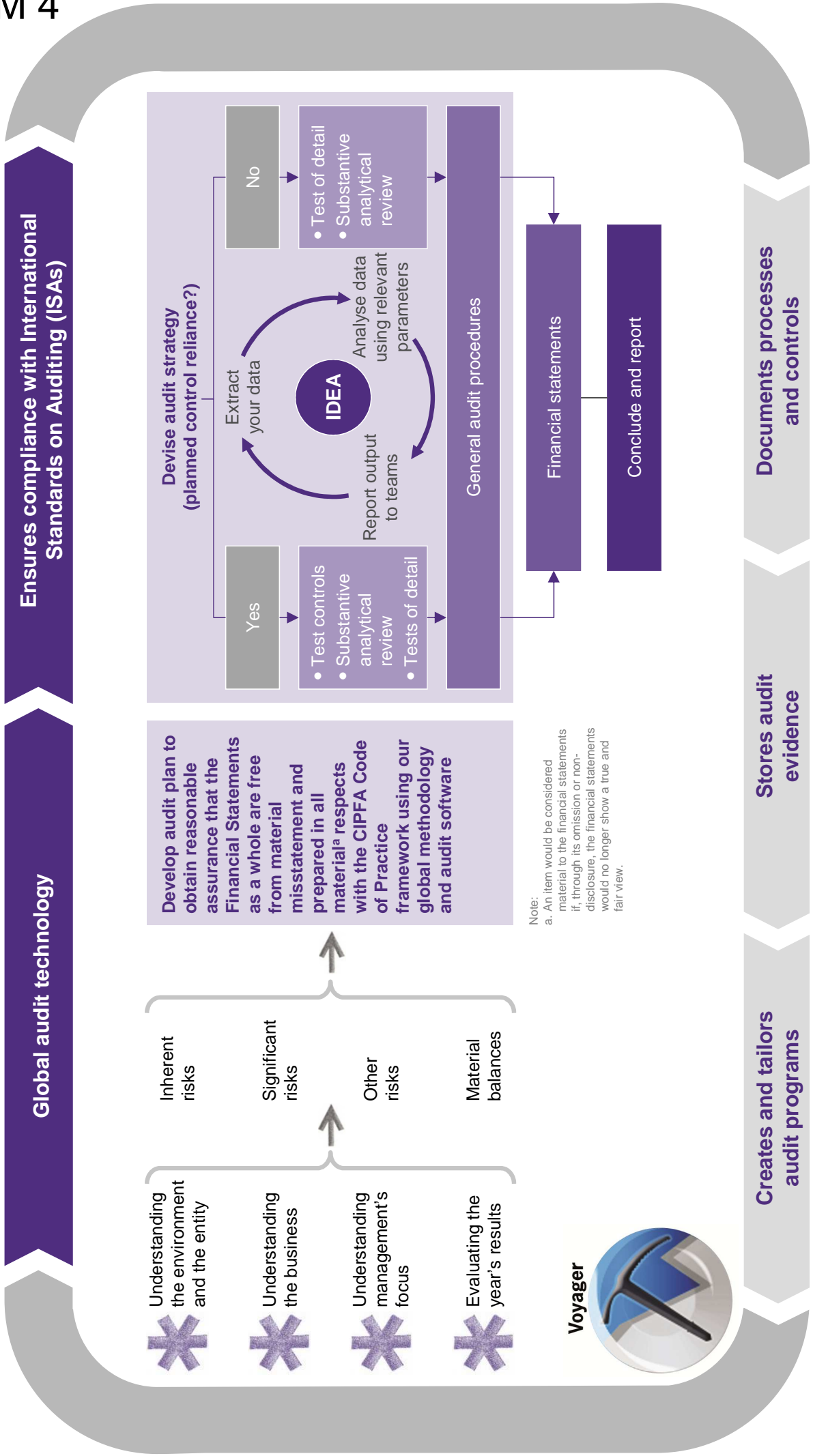
Our response

<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 discussions with management and our substantive testing schools are accounted for in line with the latest guidance the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly 	<ul style="list-style-type: none"> We will discuss the impact of 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 continue to review the Council's progress in identifying and valuing its highways assets to enable it to produce a balance sheet as at 1st April 2015 	<ul style="list-style-type: none"> We will review the Council's performance against the 2014/15 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
--	--	--	--	--	--

ITEM 4

Our audit approach

ITEM 4



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



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
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable.
<p>Management over-ride of controls</p>	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Follow-up of accounting estimates, judgments and decisions made by management in the previous year • Review of the controls which operate for the processing of journal entries <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management in the draft financial statements • Testing of journal entries • Review of unusual significant transactions

Other risks identified

ITEM 4

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 risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough testing of operating expenses and creditors completed confirms processes and controls operating satisfactorily <p>Further work planned:</p> <ul style="list-style-type: none"> Substantive testing of material expenditure streams in the 2014-15 financial year Substantive testing of significant creditor balances Review of after date payments to ensure all liabilities identified
Employee remuneration	Employee remuneration understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough testing of employee remuneration completed which confirms processes and controls operating satisfactorily <p>Further work planned:</p> <ul style="list-style-type: none"> Reconcile the pay expenditure reported in the draft financial statements to total expenditure recorded in the payroll system Complete payroll trend analysis
Accounting for School buildings on or off Balance Sheet	<p>There have been changes to the Code guidance in 2014/15 for the Accounting for Schools. The Council will need to consider the status of Voluntary Controlled, Voluntary Aided and Foundation Schools individually to assess whether they should be recorded on the Balance Sheet.</p> <p>Interpretation of the guidance in the Code has been ambiguous and open to different interpretations. Councils have been requested to provide detailed explanations and evidence to support their interpretation of the guidance.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed proposed treatment with your Capital Accountants and provided copies of a Grant Thornton briefing note on the subject. <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the Council's interpretation of the guidance for each individual school or group of schools and the evidence provided to support the proposed treatment. We will provide a view on compliance with the Code We will review the accounting entries in the financial statements to confirm that they comply with the relevant accounting standards

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:

- Medium Term Financial Strategy – as part of our Financial Resilience work, we will review your medium term financial and savings plans and assess the delivery and reporting of current plans
- Children's services – we will follow up on progress made to address the concerns raised by Ofsted. In particular we will review the outcomes from the follow-up visit by Ofsted expected imminently
- Better Care Fund – we will review the financial management and governance of Devon's £59m Better Care Fund

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

ITEM 4

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

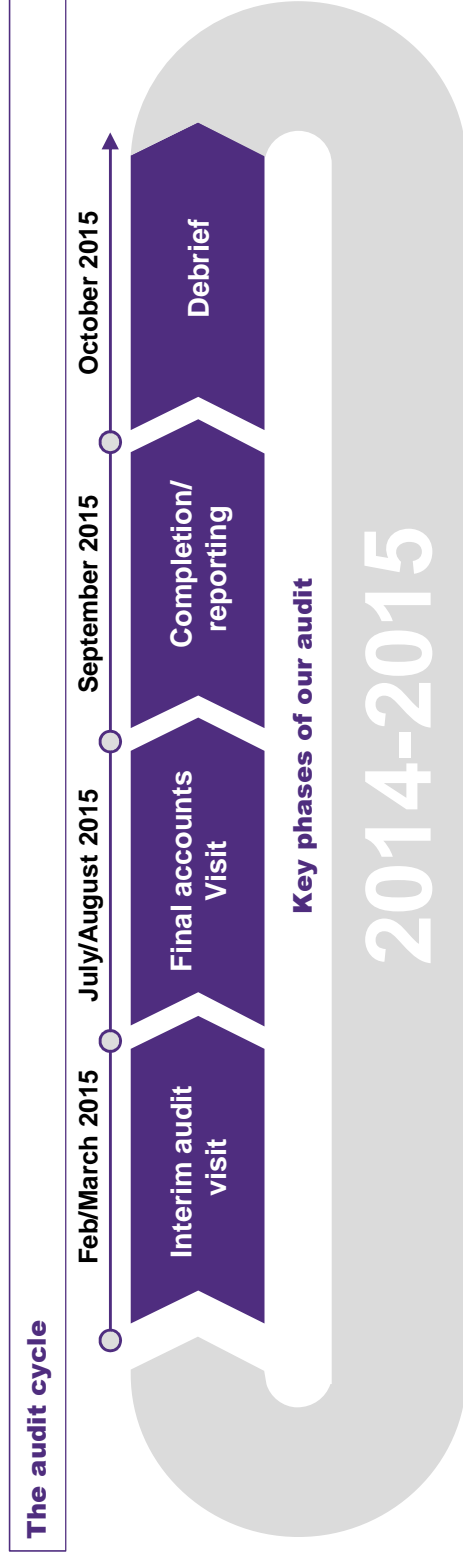
	Work performed and findings	Conclusion
Internal audit	<p>We have carried out a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p>
Walkthrough testing	<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> <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>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<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 cont'd

	Work performed	Conclusion
<p>Review of information technology controls</p>	<p>IT (information technology) controls observed have been implemented in accordance with our documented understanding. We will confirm that there have been no changes to the IT systems reviewed last year and complete a follow up of the issues that were raised last year.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<p>Journal entry controls</p>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>	<p>We will undertake detailed testing on journal transactions processed during the whole year, as part of our audit of the draft financial statements, by extracting 'unusual' entries for further review.</p>
<p>Early substantive testing</p>	<p>We are proposing to carry out some early substantive testing in March in the following areas:</p> <ul style="list-style-type: none"> • Payroll – trend analysis for the first 10 months of the year and transaction testing of a sample of payroll items • PFI – Complete an assessment of the financial model for the new Exeter Waste service concession and update our assessment for the schools PFI • PPE – substantive testing of a sample of capital expenditure transactions and existence testing on a sample of assets in the Fixed Asset Register 	<p>We will report our findings in the ISA 260 Audit Findings Report to be issued at the end of the audit, unless we have any specific findings, which we need to raise with you earlier.</p>
<p>Value for money</p>	<p>Our assessment of the VFM risks set out in page 9 of this plan will begin in March, with a review of the Medium Term Financial Strategy and savings plans. Followed by an update in August.</p> <p>Our review of the findings from the pending Ofsted visit will be completed once the report is published.</p>	<p>We will report our findings in the ISA 260 Audit Findings Report to be issued at the end of the audit, unless we have any specific findings, which we will raise with you earlier.</p>

Key dates

ITEM 4



Date	Activity
February 2015	Planning
February/March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
July/August 2015	Year end fieldwork
TBC	Audit findings clearance meeting with County Treasurer and Deputy
TBC September 2015	Report audit findings to those charged with governance (Audit Committee)
30 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	140,374
Grant certification	0
Total fees (excluding VAT)	140,374

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

Grant certification

- Our fees for grant certification are to be agreed and are unlikely to cover any claims audited on behalf of the Audit Commission
- Fees in respect of other grant work, such as reasonable assurance reports, are to be agreed and will be shown under 'Fees for other services'

Fees for other services

Service	Fees £
This will include reasonable assurance reports on grants as required.	tbc

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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

ITEM 4

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		✓



© 2015 Grant Thornton UK LLP. All rights reserved.
'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.
Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.
grant-thornton.co.uk

