



# EASTBOURNE BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2015

27 February 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 Eastbourne Borough 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 from an inappropriate use of estimates in calculating revenue.

The Council has replaced its housing benefits system from Northgate Iworld to Civica OpenRevenues during the year. There is a risk that benefit claimant data may not have been accurately and completely transferred between the systems, which could affect the calculations of on-going benefit expenditure awarded to claimants.

The *Code of practice for Local Authority Accounting 2014/15* includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control, which should be used to determine whether entities and joint arrangements should be consolidated into Group financial statements, along with the basis of accounting for the Council's and Group accounts.

### USE OF RESOURCES

The Medium Term Financial Strategy has identified further savings requirement of £0.5 million in each of the three years from 2016/17, to be met from efficiencies and procurement savings. Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.

## Fees

The proposed core audit fee for the year is £90,374 plus VAT.

Our Planning Letter 2014/15 had previously proposed a fee of £88,920. We have revised this to include an adjustment of £1,454 for work previously undertaken as part of the certification work on NDR income (£900) and the council tax support schemes (£554) which we are now required to undertake as part of the audit of the accounts.

## 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	June 2015
Final report to those charged with governance	23 September 2015 Audit & Governance Cttee
Independent auditor's report including: <ul style="list-style-type: none"><li>Opinion on the financial statements</li><li>Value for money conclusion</li><li>Certificate</li></ul>	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
Summary of findings from the audit in the 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 Chief Finance Officer and the Audit and Governance Committee. When communicating with the Audit and Governance 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 and Governance 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 Chief Finance Officer and Head of Internal Audit.

We will write to the Chair of the Audit and Governance Committee to request 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 £2 million (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 £40,000 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 and Governance Committee is required to consider and we will request that you correct them.

### **Whole of Government Accounts**

Local authorities are required to prepare information in the Data Collection Tool (DCT) 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 (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 (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 Lloyd-Thomas 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 Eastbourne Borough Council 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 NAO is currently consulting on a revised Code of Audit Practice to come into effect from 2015/16.

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.

# 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 SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<b>MANAGEMENT OVERRIDE</b>	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.
<b>REVENUE RECOGNITION</b>	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 from 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.
<b>CHANGE IN HOUSING BENEFITS SYSTEM</b>	The Council has replaced its housing benefits system from Northgate Iworld to Civica OpenRevenues during the year. There is a risk that benefit claimant data may not have been accurately and completely transferred between the systems, which could affect the calculations of on-going benefit expenditure awarded to claimants.	Completeness and accuracy of housing benefit expenditure	We will review work done by internal audit to test the migration of data from the previous benefits system to the new system, and associated reconciliations. We will carry out further testing as necessary to obtain assurance over the completeness and accuracy of the benefit claimant data transfer.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
NEW ACCOUNTING STANDARDS	<p>The <i>Code of practice for Local Authority Accounting 2014/15</i> includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12). This introduces a new definition of control, which should be used to determine whether entities and joint arrangements should be consolidated into Group financial statements, along with the basis of accounting for the Council's and Group accounts.</p> <p>The Council will need to review its interests in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns.</p>	Completeness of income and expenditure and balances for entities requiring consolidation	We will review the Council's justification for its accounting treatment of all material interests in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied.
USE OF RESOURCES SIGNIFICANT RISKS			
RISK	RISK DETAIL	AUDIT RESPONSE	
FINANCIAL RESILIENCE	<p>Reductions in Government funding and other inflationary pressures requires savings of £2.4 million to balance the 2015/16 budget. This has been addressed through planned efficiency savings of £1 million, additional income of £0.5 million, and a draw from earmarked reserves of £0.9 million.</p> <p>The refresh of the Medium Term Financial Strategy in July 2014 identified further savings requirement of £0.5 million in each of the three years from 2016/17, to be met from efficiencies and procurement savings.</p> <p>Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. However, the Council maintains healthy levels of revenue reserves and balances and has planned to use only £0.25 million each year to support budgets.</p>	<p>We will review the assumptions used in the Council's Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied.</p> <p>We will monitor the delivery of the budgeted savings in 2014/15 and the plans to reduce services costs and increase income in 2015/16.</p> <p>We will also review the Council's strategies to close the budget gap after 2016/17.</p>	




# AUDIT TIMETABLE

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

FINANCIAL STATEMENTS	
Interim visit	March - April 2015
Final audit visit	July - August 2015 Clearance early September
Independent auditor's report covering: <ul style="list-style-type: none"> <li>• Opinion on the financial statements</li> <li>• Value for money conclusion</li> <li>• Certificate</li> </ul>	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	March - July 2015
Value for money conclusion	By 30 September 2015
REPORTING	
Report on any significant deficiencies in control (if required)	June 2015
Final report to those charged with governance	23 September 2015 Audit & Governance Ctte
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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