

The Audit Plan for Wirral Metropolitan Borough Council

Year ended 31 March 2015

March 2015

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Contents

Section

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

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Future Council

- During 2014-15 the Council commenced a full review into the structure, design and functions of the Council in order to inform proposals to remodel the organisation.
- The review is intended to transform the Council to help deliver the significant savings required.
- Budget options have been published and consultation undertaken and Cabinet agreed a savings programme in December 2014.

2. Procurement and Commissioning

- Delivering efficiency savings through revised procurement and commissioning arrangements is a fundamental element of the Future Council programme as the Council considers moving from the provision to the commissioning of services.

3. Financial Resilience

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16 and the Council's updated medium term financial strategy sets out that savings of £38 million are required during 2015-16.
- At the same time local authorities are facing increasing demands for school places and adult social care services which the Council has a contractual obligation to fulfil.

4. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund. The Council is committed to delivering Vision 2018 for Wirral in conjunction with key stakeholders.
- Revised arrangements required to address significant issues including NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.



Our response

- We will continue to monitor the progress and impact of the transformation project with particular emphasis on any organisational changes and the identification and achievement of financial savings.

- We will review the progress you have made in delivering your efficiency savings in this area as part of our work on your arrangements for securing financial resilience.

- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

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. Regional Devolution</p> <ul style="list-style-type: none"> • Nationally there is a move for greater devolution and a push for the agreement of City region devolution deals. 	<p>3. Reporting Timetable</p> <ul style="list-style-type: none"> • The Government proposes to bring forward the existing accounts timetable dates of 30 June and 30 September to 31 May and 31 July as from the accounts for 2017-18. 	<p>4. Better Care Fund</p> <ul style="list-style-type: none"> • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	<p>5. Corporate governance</p> <ul style="list-style-type: none"> • Local government continues to operate in a challenging environment where it is important that it maintains good and effective governance. • Key information about governance arrangements is set out in the Annual Governance Statement (AGS) and explanatory foreword. 	<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. • The Council completes grant claims and returns on which audit certification is required.
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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 correctly and 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"> • The Liverpool City Region Combined Authority was established on 1 April 2014. We will discuss your plans in these areas 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 support the Council by working together to deliver a more efficient audit this year. • We will continue to work with the Council and finance team to ensure procedures are in place to meet the reporting requirements in advance of the implementation date. 	<ul style="list-style-type: none"> • We will consider the governance arrangements in place and assess whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required. 	<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 explanatory foreword to consider whether they are consistent with our knowledge. 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements. • We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.
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Our audit approach

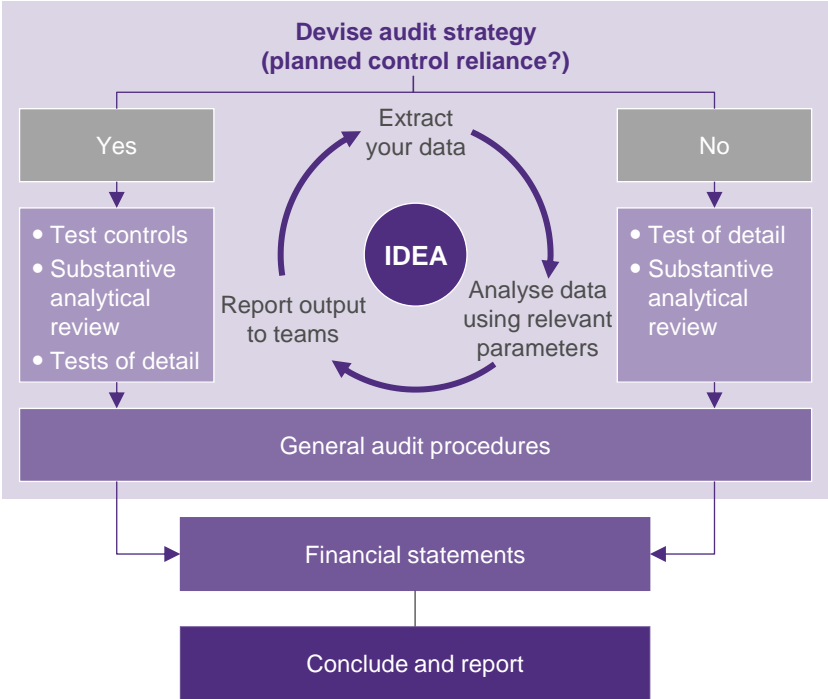
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
 Significant risks
 Other risks
 Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



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.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

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
The revenue cycle includes fraudulent transactions	<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 Wirral 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 Wirral Council, mean that all forms of fraud are seen as unacceptable
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks identified

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 related to core activities understated or not recorded in the correct period (Operating expenses understated)	Work completed to date: <ul style="list-style-type: none"> • Documentation and identification of the processes and key controls within the operating expenses cycle • Walkthrough of controls to confirm our understanding Further work planned: <ul style="list-style-type: none"> • Agreement of creditors to system balances and control account reconciliations, • Review and substantive testing of year end accruals and creditor balances including confirmation that balances due have been settled after year end, • "Cut-off" testing to obtain assurance that creditors have been accounted for in the correct financial year.
Employee remuneration	Employee remuneration and benefits obligations and expenses understated (Remuneration expenses not correct)	Work completed to date: <ul style="list-style-type: none"> • Documentation and identification of the processes and key controls within the employee remuneration cycle • Walkthrough of controls to confirm our understanding Further work planned: <ul style="list-style-type: none"> • Use of analytical techniques to compare expected payroll costs with actual, • Review of payroll reconciliations including at the year end.

Other risks cont'd

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
Welfare Benefit expenditure	Welfare benefit expenditure improperly computed	<p>Work completed to date:</p> <ul style="list-style-type: none">• Documentation and identification of the processes and key controls within the Welfare benefits expenditure cycle• Walkthrough of controls to confirm our understanding <p>Further work planned:</p> <ul style="list-style-type: none">• Reconciliation of welfare benefits expenditure system to the general ledger and financial statements• Housing benefit subsidy claim testing using Audit Commission HB COUNT approach.

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 a number of areas to address the local and national risks identified and these include:

- We will again follow up the progress made on the issues raised set out in our 2013-14 Value for Money report and update our understanding of the Council's current position;
- Review of current budget projections for 2015/16 – 2017/18 and issues and actions identified by the Council to address the forecast funding gap; and
- update our review of the Council's work with its partners, particularly on the developments on integration under the implementation of the 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

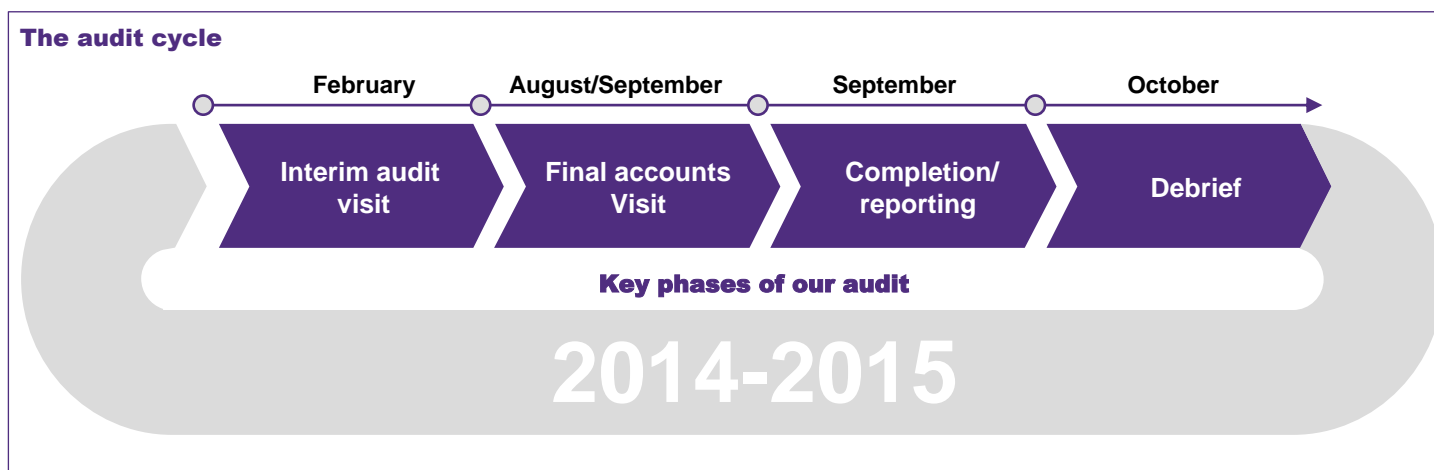
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have previously confirmed that internal audit is independent of operating management and that senior internal audit staff have the relevant experience and qualifications.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</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> <p>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</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
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>However, our review did identify a number of issues that we will share with Officers and discuss what actions the Council may implement in response. We will update the Audit Committee later in the year.</p>
Journal entry controls	<p>We are reviewing the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>We will report at a future Audit Committee meeting should our work identify any material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Early substantive testing	<p>We have undertaken early substantive testing on a sample of payroll expenditure to supporting contracts and calculation of deductions. We have also completed early testing against a sample of Council expenditure from the Accounts Payable system and income from the Accounts Receivable system during the first 10 months of the year.</p>	<p>Our work completed to date has not identified any errors or weaknesses impacting on the financial statements. We will need to undertake additional testing during the financial statements audit to cover the remaining months of the financial year.</p>
Judgements and Estimates	<p>The CIPFA/LASAAC Code of Practice on Local Authority Accounting for 2014/15 includes new requirements for schools in local authorities. It is likely that the accounting treatment will require significant judgments based on the circumstances for individual schools. We have discussed the issue with the Council's finance team and shared our assessment of what local authorities need to do to meet the requirements of the Code.</p> <p>It is clear that this is a complex issue involving judgement and we will look to complete our review of your assessment of individual schools at our interim audit visit.</p>	<p>Upon completion of this work, we will bring to your attention any issues to consider prior to production of the final accounts.</p>

Key dates



Date	Activity
January – February 2015	Planning
February 2015	Interim site visit
18 March 2015	Presentation of Audit Plan to Audit Committee
August-September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with the Head of Financial Services
September 2015	Present Audit Findings Report and Annual Audit Letter to those charged with governance (Audit Committee)
By 30 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	213,150
Grant certification	31,800
Total fees (excluding VAT)	244,950

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 cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Where applicable, fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
Teachers Pension Return - Reasonable Assurance Report 2013/14	4,200
Place Analytics	10,000

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

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.

	Audit plan	Audit findings
Our communication plan		
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		✓



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