



The Audit Plan for Halton Borough Council

Year ended 31 March 2013

April 2013

Mike Thomas

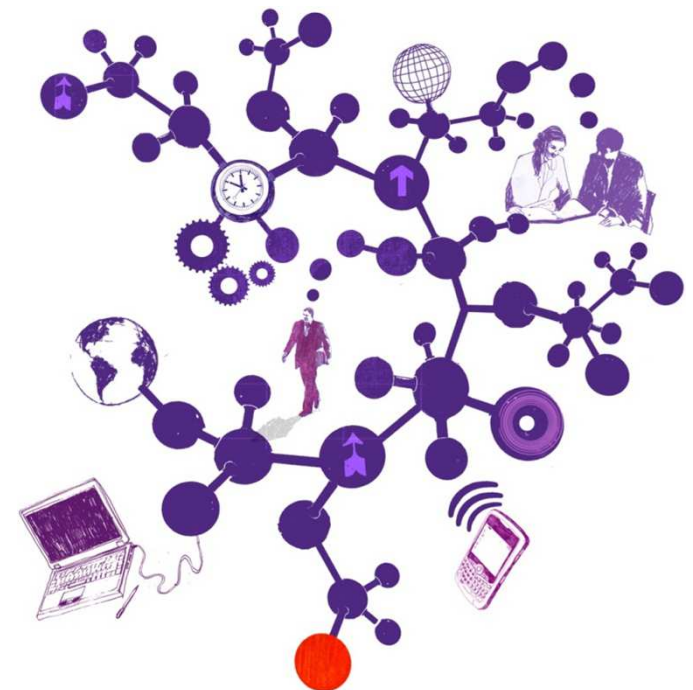
Director
T 0161 214 6368
E Mike.Thomas@uk.gt.com

Colette Williams

Manager
T 0161 214 6360
E Colette.A.Williams@uk.gt.com

Judith Smith

Executive
T 0161 214 6371
E Judith.Smith@uk.gt.com



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.

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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

<p>1. Financial Pressures</p> <ul style="list-style-type: none"> The Council has faced significant funding reductions in recent years The Council has actively managed these pressures and continues to maintain costs within budget The position going forward is even more challenging 	<p>2. Financial Resilience</p> <ul style="list-style-type: none"> The Council continues to face a challenging financial environment. It has plans in place to deliver a balanced budget in 2013/14 and a medium term financial strategy for future years The scale of funding reductions will require further service reviews, alternative delivery models and challenges to current service provision 	<p>3. Mersey Gateway Project</p> <ul style="list-style-type: none"> The Mersey Gateway (MG) project is entering a critical stage of development. It is a unique scheme with high value transactions The project represents a huge opportunity for the Council but also brings with it significant risks in terms of on-going affordability, financial resilience and delivery 	<p>4. Changes to Local Government Finance</p> <ul style="list-style-type: none"> The Council is implementing significant changes to both the business rates and welfare benefits regimes with effect from 1 April 2013 	<p>5. New Public Health Responsibilities</p> <ul style="list-style-type: none"> Following the abolition of Primary Care Trusts the Council has taken over responsibility for public health services with effect from 1 April 2013 The Council has new responsibilities for the scrutiny of local NHS bodies through the Health and Wellbeing Board 	<p>6. Capacity</p> <ul style="list-style-type: none"> The level of staffing at the Council has been reduced through previous voluntary redundancies/retirements The finance department has been restructured and there is now a team approach to the production of the draft accounts by the required date for audit
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Our response

<ul style="list-style-type: none"> We will continue to monitor the financial position of the Council during the year We will monitor how the Council is managing risks and responding to specific challenges 	<ul style="list-style-type: none"> We will continue to monitor the medium term financial plan to inform our audit We will review the Council's progress in achieving its savings plans We will carry out a review of the Council's financial resilience 	<ul style="list-style-type: none"> We will review your arrangements to ensure the affordability of the project We will use the work of other agencies, such as Internal Audit, to inform our audit We will review your accounting treatment of development costs in 2012/13 to ensure costs have been correctly charged to either capital or revenue 	<ul style="list-style-type: none"> We will monitor the Council's plans for managing the changes to local government finance 	<ul style="list-style-type: none"> We will monitor the Council's arrangements for its new public health responsibilities We will review the minutes and reports of the Health and Wellbeing Board 	<ul style="list-style-type: none"> We will monitor progress against the final accounts closedown plan and provide details of required audit working papers to the Council We will work with the finance department to ensure that the final accounts audit progresses smoothly
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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 and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Transfer of assets to Academies
- Recognition of grant conditions and income

2. Legislation

- Local Government Finance settlement 2012/13
- Welfare reform Act 2012

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Pensions

- Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS)

5. Other requirements

- The Council is required to submit a Whole of Government accounts (WGA) pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

We will ensure that:

- the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing
- schools are accounted for correctly and in line with the latest guidance
- grant income is recognised in line with the correct accounting standard

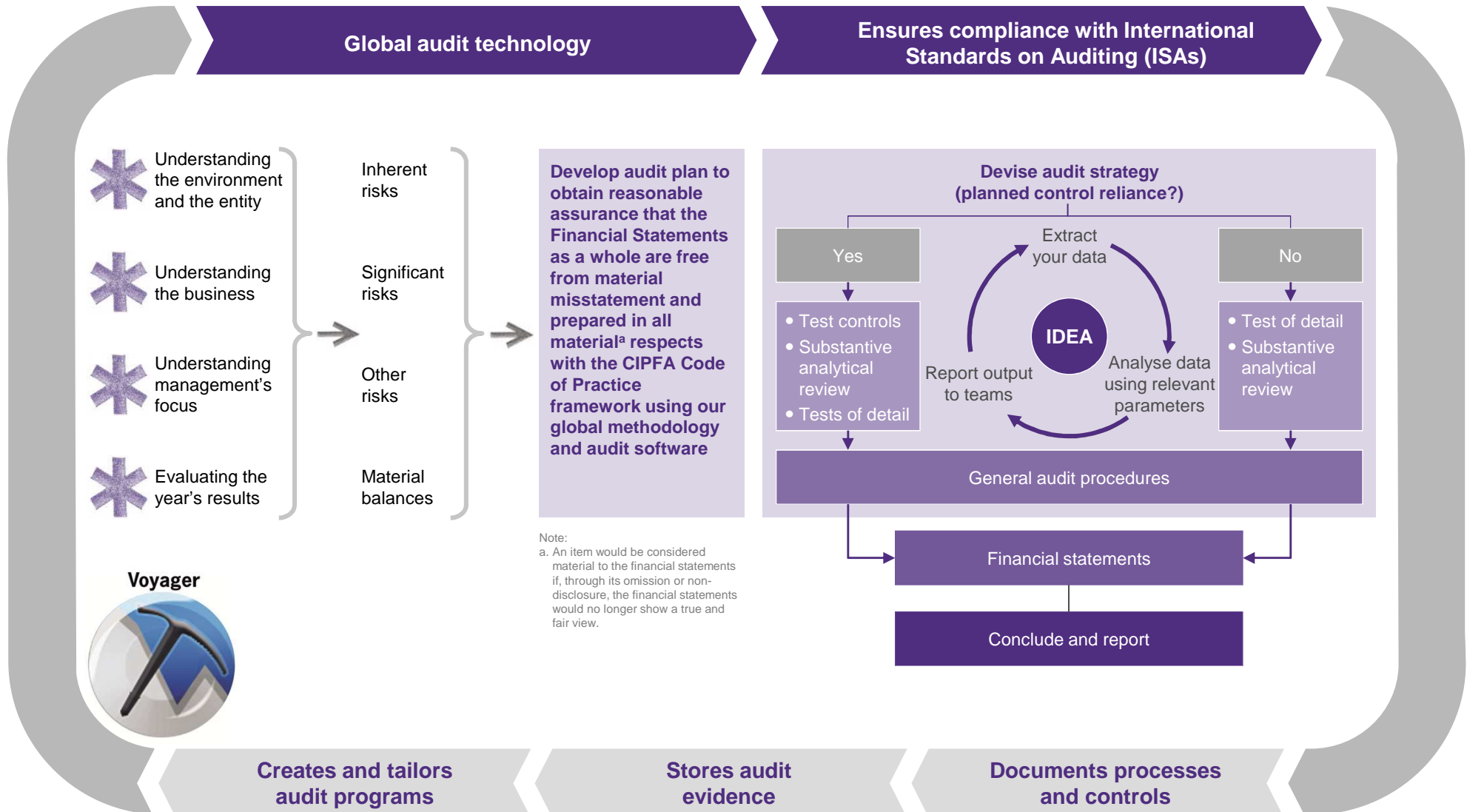
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- 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

- We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management

- We will carry out work on the WGA pack in accordance with requirements
- We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – 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 years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Precepts and Levies	No	Council Tax	Low	None		×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	No	Borrowings	Low	None		×
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Dividend income from Joint Venture	No	Revenue	Low	None		×
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		×
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
PFI revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	Yes	Investments	Low	None		✓
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provisions	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

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 and there is one other significant risk relevant to Halton BC.

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Further work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of entity-level controls at the Council eg. journals and the role of the Business Efficiency Board (as the Council's Audit Committee) <p>Further work planned:</p> <ul style="list-style-type: none"> Review of general IT controls Review of accounting estimates, judgments and decisions made by management Testing of journal entries using computer assisted audit techniques (CAATs) Review of unusual significant transactions
Incorrect capitalisation of costs associated with the Mersey Gateway project	Accounting standards and CIPFA guidance set out the criteria to be applied when capitalising costs in the financial statements. For some costs there is an element of judgement as to whether they should be accounted for as capital or revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Initial discussion with the Council's finance team about their approach in 2012/13 and their response to the recommendations contained within the 2011/12 Annual Governance Report <p>Further work planned:</p> <ul style="list-style-type: none"> Obtain and review the accounting methodology being applied by the Council in 2012/13, including an assessment of assumptions and judgements made Sample test a number of transactions to confirm compliance with accounting standards

Other risks

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).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	<p>Operating expenses understated</p> <p>Creditors understated or not recorded in the correct period</p>	<ul style="list-style-type: none"> Documentation and identification of the processes and key controls in the operating expenses cycle Walked through a sample expenditure item to confirm our understanding 	<ul style="list-style-type: none"> Testing of controls Substantive testing of expenditure Substantive testing of year end creditors
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> Documentation and identification of the process and key controls in the employee remuneration cycle Walked through a sample employee to confirm our understanding 	<ul style="list-style-type: none"> Substantive testing of payroll expenditure Audit of the year end reconciliation between the payroll system and the general ledger
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Documentation and identification of the processes and key controls in the welfare expenditure cycle Walked through a sample expenditure item to confirm our understanding 	<ul style="list-style-type: none"> Certification work on the housing and council tax benefit subsidy return
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Documentation and identification of the processes and key controls in the PPE cycle Walked through a sample item of capital expenditure to confirm our understanding 	<ul style="list-style-type: none"> Substantive testing of PPE additions and adjustments during the year Substantive testing of opening balances on PPE
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Documented the qualifications of the in-house valuation team 	<ul style="list-style-type: none"> Agree the principles and methodologies used by the Council in its cyclical valuation exercise Substantive testing of revaluations at year end

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Halton Borough Transport	No	Comprehensive	None	<p>Halton Borough Transport (HBT) is not material to the accounts of the Council . We will agree the HBT audited accounts to the Councils' disclosures in the 2012/13 accounts.</p> <p>We are currently updating our understanding of the Council's group arrangements. We will consider any changes from the prior year and reflect any changes in our testing strategy</p>

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- opening balances for 2012/13
- the impact of issues highlighted within Council minutes and agenda papers
- journal entry controls.

A review of Information Technology (IT) controls is currently in progress and will be completed ahead of our detailed substantive work on the Council's financial statements.

	Work performed	Conclusion
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate we can gain assurance from the overall work undertaken by internal audit and can conclude that the service is contributing positively to the internal control environment and overall governance arrangements within the Council.	Overall, we have concluded that internal audit continue to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These included the following: <ul style="list-style-type: none">• Payroll• Housing and Council Tax Benefits• Operating Expenses• Property, Plant and Equipment.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Results of interim audit work (continued)

	Work performed	Conclusion
Opening balances	We have reviewed the balances brought on to the general ledger at 1 April 2012 to ensure they are consistent with the audited 31 March 2012 values. This included a check to see that all manual adjustments and all audit adjustments at 31 March 2012 were properly posted to the ledger.	No significant issues were noted and we are satisfied that balances are properly recorded in the general ledger at 1 April 2012.
Minutes review	We have reviewed all relevant meeting minutes and relevant papers throughout the year to identify potential audit risks	The review of minutes has not identified any additional risks above those reported in this audit plan.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	We have not identified any significant issues. We will perform detailed testing on journal transactions recorded in the general ledger throughout the year using computer assisted audit techniques (CAATs).
Review of information technology (IT) controls	Our information systems specialist is undertaking a high level review of the general IT control environment, as part of the overall review of the internal controls system.	The work is in progress with an expected completion date of the end of April.

Value for Money

Introduction

The Code of Audit Practice 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.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members.

We have identified the Mersey Gateway project, particularly its affordability, as a specific risk for the Council's vfm conclusion. We have discussed this with senior officers and agreed a project brief and fee for the audit work. We are currently revisiting the project brief and the associated audit fee to ensure our proposed audit work does not exceed our Code of Audit Practice responsibilities. We will update members on progress in our next update report to the Business Efficiency Board.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Consider the overall affordability of the Mersey Gateway project
- Review the Council's progress against its savings plans
- Review the Council's response to cost pressures arising from reductions in funding, the need to identify and maximise funding opportunities, and the challenge to the Councils capacity to continue to delivery its priorities

Logistics and our team

The audit cycle



Date	Activity
18 December 2012	Planning meeting
February to April 2013	Interim site work
22 May 2013	The audit plan presented to Business Efficiency Board
1 July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
18 September 2013	Business Efficiency Board meeting to report our findings
25 September 2013	Sign financial statements and VfM conclusion
28 October 2013	Issue Annual Audit Letter

Our team

<p>Mike Thomas CPFA Director T 0161 214 6368 M 0788 045 6173 E Mike.Thomas@uk.gt.com</p>	<p>Judith Smith CPFA Executive T 0161 214 6371 E Judith.Smith@uk.gt.com</p>
<p>Colette Williams CPFA Manager T 0161 214 6360 M 0788 045 6176 E Colette.A.Williams@uk.gt.com</p>	<p>Ashling Conway Associate T 0151 214 7237 E Ashling.Conway@uk.gt.com</p>

Fees and independence

Fees

	£
Council audit	139,322
Additional work relating to Mersey Gateway (opinion and vfm conclusion)	TBC
Grant certification	14,350
Total	153,672

Our fee assumptions include:

- Our fees are exclusive of VAT
- 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

Fees for other services

Service	Fees £
Grant Thornton's tax team have provided tax advice to Halton BC for a number of years. The cost of this advice is normally in the region of £12,000 to £15,000 per year. However, in 2011/12 the costs totalled some £33,300. This increase was related to specific tax advice on Daresbury and Wade Deacon High School. In accordance with Ethical Standards we reviewed this matter and we are satisfied that there is no significant threat to auditor independence.	33,300

Independence and ethics

We confirm that there are no other significant facts or matters that impact on our independence as auditors that we are required to 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.

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		✓



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