



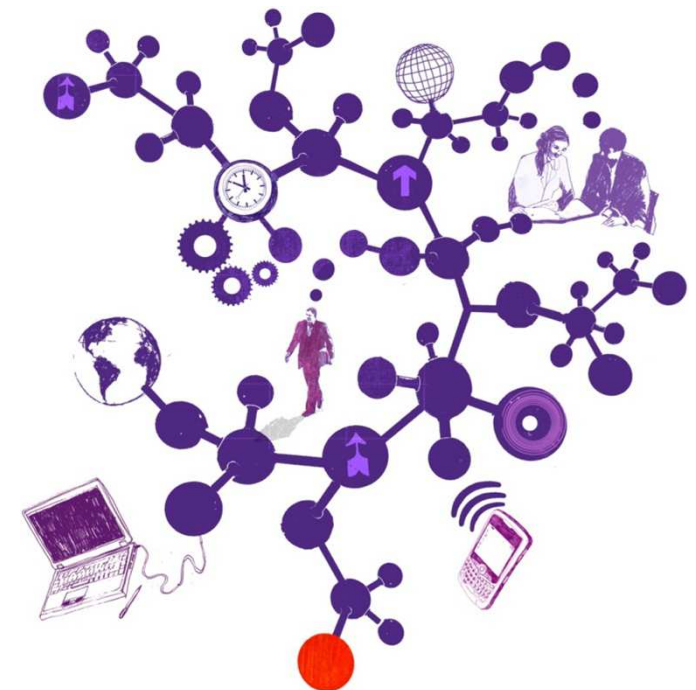
The Audit Plan for Blackburn with Darwen Borough Council

Year ended
31 March 2013

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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

1. Financial Resilience

- The Council's ambition is to continue to deliver quality services for residents.
- The demand for services is increasing whilst central government funding is decreasing
- The Medium Term Financial Strategy sets out a "worst case" scenario budget gap of £30m by 2014/15.

2. Achievement of corporate objectives 2012-2015

- The Council's Corporate Plan sets out six priority objectives for the next three years.
- The achievement of these ambitious objectives grows increasingly challenging given the current economic environment

3. Building Schools for the Future (BSF) Phase II

- The BSF project involves the building, remodelling and operation of a number of schools in Blackburn with Darwen. The programme includes three schools funded under the Private Finance Initiative (PFI). One of these schools became operational in 2011/12 with a further two schools becoming operational in 2012/13.
- The PFI contract is material for the Council and will fall within the scope of IFRIC2.

4. Preparing for future changes in Business Rates, Council Tax Benefit and Housing Benefit

- Implementation of the Council Tax Reduction scheme from 2013/14
- Implementation of the Business Rates retention scheme from 2013/14
- The new universal credit will be introduced nationally in 2013.



Our response

- Through our VfM conclusion assessment we will review how the Council is responding to the financial challenges it faces
- We will report on the Council's financial resilience.

- We will assess your arrangements for identifying and monitoring the achievement of your corporate objectives as part of our Value for Money assessment.

- We will undertake substantive tests of detail on the value of assets and liabilities shown in the Council's financial statements.
- We will review the accounting treatment to ensure that the transactions are correctly disclosed in accordance with requirements

- We will continue to discuss with officers the implementation and impact of these changes.
- We will discuss the officers the implementation of other welfare reforms, including the impact on the Capita contract, offering a view where appropriate.

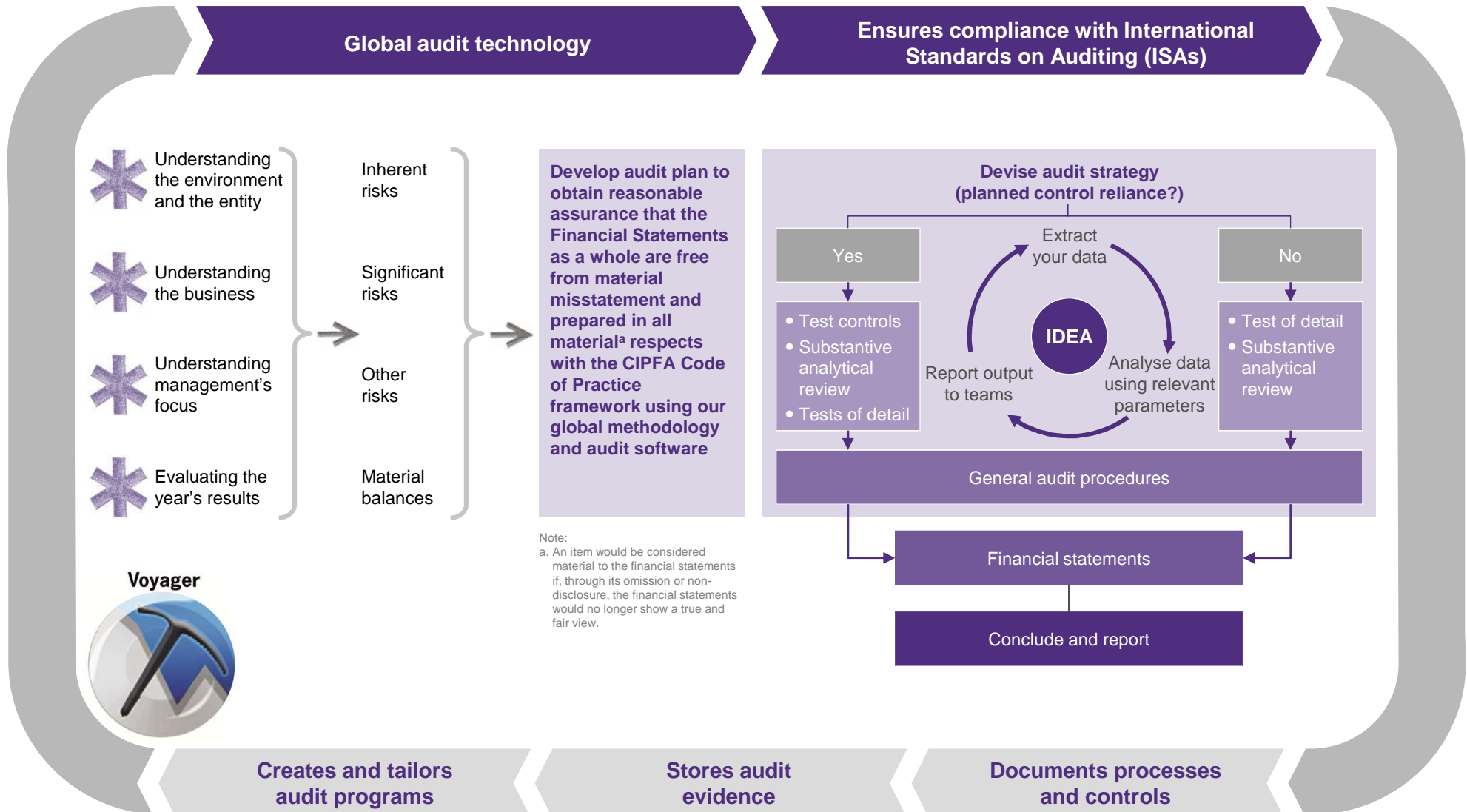
Developments relevant to your business and the audit

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 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 • Accounting for the transfer of assets to Academies • Recognition of grant conditions and income 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<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 (WGA) accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

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 our detailed work on the statement of accounts • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard 	<p>We will</p> <ul style="list-style-type: none"> • 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 	<p>We will</p> <ul style="list-style-type: none"> • 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 	<p>We will</p> <ul style="list-style-type: none"> • discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management 	<p>We will</p> <ul style="list-style-type: none"> • review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • undertake a review of Financial Resilience as part of our VFM conclusion 	<p>We will</p> <ul style="list-style-type: none"> • carry out work on the WGA pack in accordance with requirements • 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 incorrectly calculated	✓
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		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & 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	Yes	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		✓
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	<ul style="list-style-type: none"> • PPE activity not valid • 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)	No	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	Provision	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:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that the accounts may be misstated due to the improper recognition of revenue.	Audit Coverage: <ul style="list-style-type: none">• Review of revenue recognition policies• Sample testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities.	Audit Coverage: <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

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	Operating expenses understated	<ul style="list-style-type: none"> Documented and identified the processes and key controls in the operating expenses cycle Walkthrough of controls to confirm our understanding 	<ul style="list-style-type: none"> Substantive testing of year end balances, including year end adjustments
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Documented and identified the processes and key controls in the operating expenses cycle Walkthrough of controls to confirm our understanding 	<ul style="list-style-type: none"> Detailed review and testing of year end accruals and creditor balances "Cut – off" testing to obtain assurance that creditors have been accounted for in the correct financial year
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> Documented and identified the processes and key controls in the employee remuneration cycle Walkthrough of controls to confirm our understanding 	<ul style="list-style-type: none"> Review of payroll reconciliations including at the year end Substantive testing to payroll records and to ensure that payroll costs have been properly accounted for across the Service Expenditure Code of Practice (SERCOP) within the Comprehensive Income and Expenditure Statement
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Documented and identified the processes and key controls in the operating expenses cycle 	<ul style="list-style-type: none"> Walkthrough test to confirm our understanding Programme of work as part of the certification of the housing and council tax benefits subsidy grant claim

Other risks (continued)

Other reasonably possible risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Documented and identified the processes and key controls for property, plant and equipment transactions 	<ul style="list-style-type: none"> Walkthrough test to confirm our understanding Review of year end reconciliation of asset register to the general ledger Sample testing of material in year movements and to obtain assurances for existence and ownership
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Documented and identified the processes and key controls in the operating expenses cycle 	<ul style="list-style-type: none"> Sample testing of revaluations
Property, Plant and Equipment - Building Schools for the Future (BSF) Phase II	Accounting treatment not correct	<ul style="list-style-type: none"> Discussions with management and senior accountants 	<ul style="list-style-type: none"> Review of Councils IFRIC 12 assessment and proposed accounting entries and associated disclosures Consideration of whether the accounting model reflects the operator's model and produces reliable results for the financial statements Check that outputs from the accounting model are correctly reflected in the financial statements, relevant disclosures have been made and these agree to supporting documentation

Interim audit work

Scope

We are currently undertaking our interim audit work in advance of our final accounts audit field work. This includes:

- walkthrough testing to confirm whether controls are implemented as we understand in the areas where we have identified a risk of material misstatement;
- tests of key controls over operating expenses, property plant and equipment (PPE) transactions and payroll costs;
- journal testing;
- review and testing of the IT control environment;
- review of balances brought forward on the general ledger at 1 April 2012 to ensure they are consistent with the audited 31 March 2012 values.

We are liaising closely with internal audit to ensure we can take assurance from their work wherever this is appropriate

Reporting

At this stage there are no significant issues to report. If any such issues arise we will report them to management immediately. We will report the overall outcome of our interim work to the Audit & Governance Committee at the June meeting. This will include any change in planned testing strategy following completion of our interim work.

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 members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

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:

- update our understanding using existing available information and our cumulative knowledge
- carry out a review of key documentation from the Council's schedule of meetings
- hold discussions with key officers and request further information as required
- engage with those charged with governance during the year
- report key messages in the Audit Findings Report
- produce a financial resilience report

Logistics and our team



Date	Activity
December 2012	Planning meetings
February – March 2013	Interim site work
16 April 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
September 2013	Audit findings clearance meeting
September 2013	Issue report of our findings to the Audit Committee
September 2013	Issue financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

Our team

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Fees and independence

Fees

	£
Council audit	136,049
Grant certification	25,900
Total	161,949

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 £
Regional Growth Fund Grant	6,840

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.

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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