

# The Audit Plan for Blackburn with Darwen Borough Council

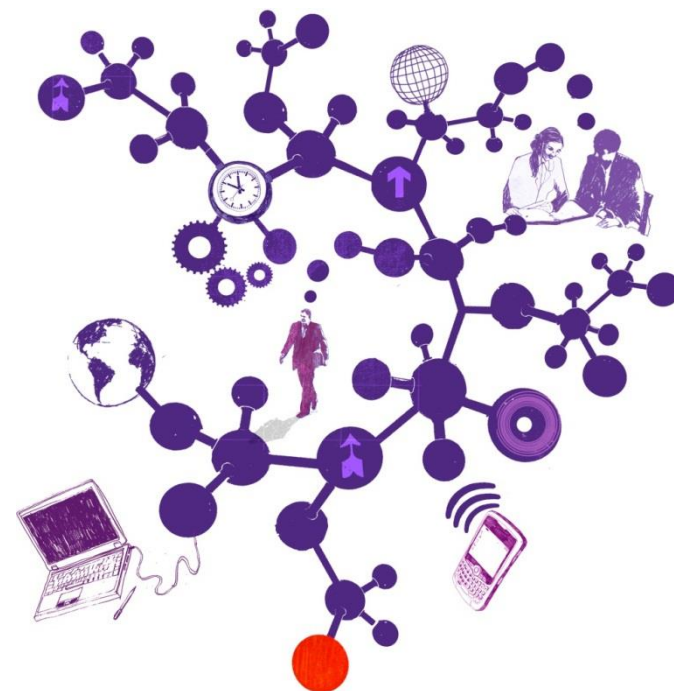
**Year ended 31 March 2015**

March 2015

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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. Medium term financial planning

- The Council has recently set out the 2015/16 budget and revised the medium term financial strategy (MTFS) 2015 – 18. Both documents set out how the Council plans to continue the task of service transformational and organisational downsizing.
- The Council has worked to strengthen financial processes and controls to help ensure delivery of the required savings.



### 2. Implementation of new payroll system

- The Council implemented a new payroll system in January 2015, later than originally anticipated.
- Clearly payroll is a significant financial system that involves the accurate processing of significant transactions.



### 3. LG Finance Settlement

- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16. As yet, there is no indication of how local authorities will be affected in 2016/17 and beyond.
- At the same time local authorities are facing increasing demands for school places and adult social care services where the Council has a contractual obligation to fulfil.



### 4. Regeneration Projects

- The Council has invested in a number of significant capital projects to help boost economic growth in recent years and these include both Pennine Reach and the Cathedral Quarter.
- The Capital programme also includes a number of significant invest to save initiatives where the successful delivery of these schemes is critical to the overall financial strategy of the Council.



## Our response

- We will review the arrangements that the Council has put in place to oversee the both the delivery of financial position set out in budgets and the required restructuring and downsizing activity.

- We will review the arrangements put in place by the Council to oversee the implementation of the new payroll system and complete a programme of testing to provide assurance that payroll transactions are not materially misstated.

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

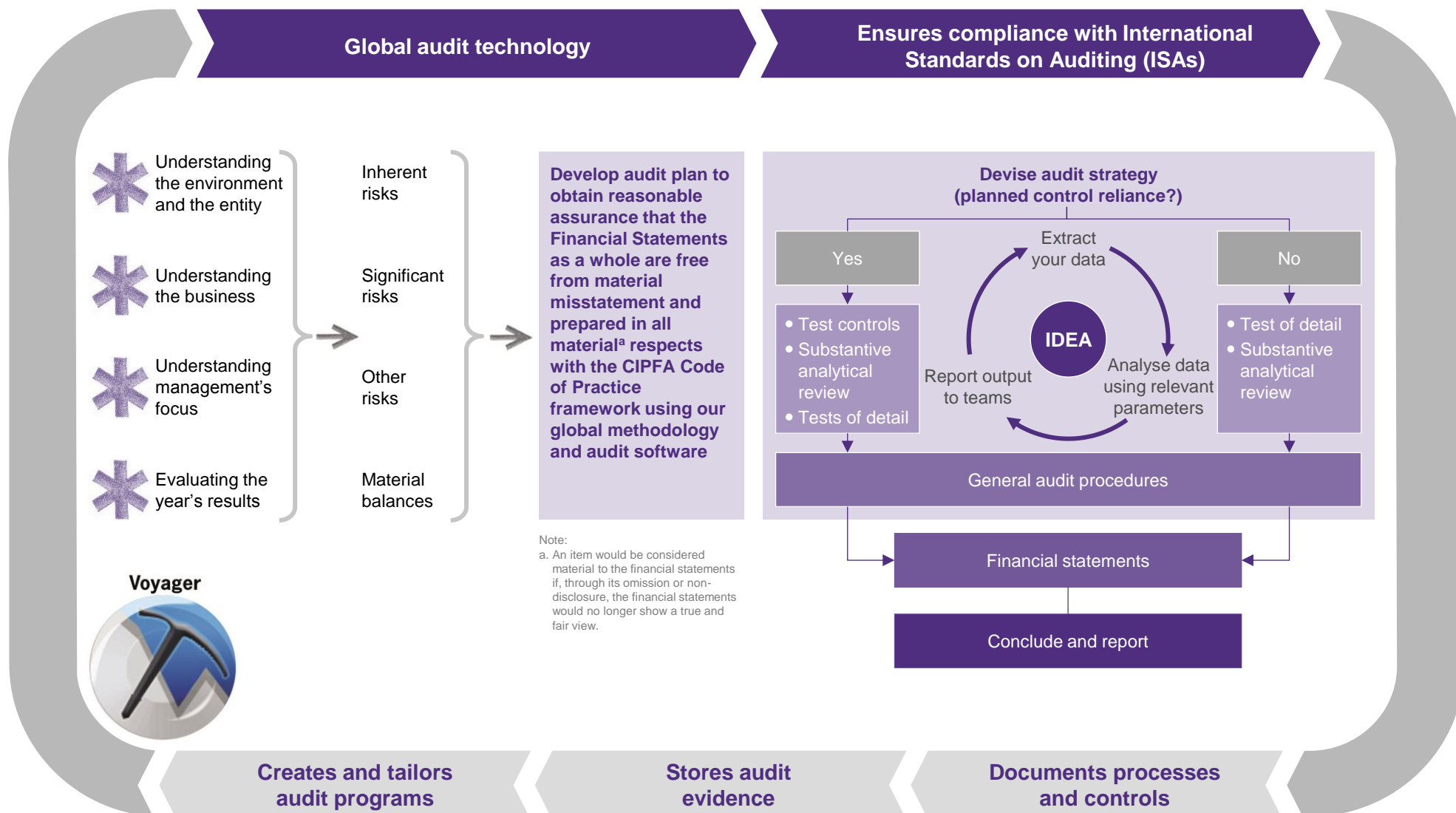
- We will consider the progress made by the Council to deliver the planned projects and invest to save initiatives.

# 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					
<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul>	<b>2. Legislation</b> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<b>4. Better Care Fund</b> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<b>5. Financial Pressures</b> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>
Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> <li>the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VfM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>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.</li> </ul>

# Our audit approach



# 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. In addition our audit planning procedures has identified one local significant risk

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 Blackburn with Darwen Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Blackburn with Darwen Borough Council, mean that all forms of fraud are seen as unacceptable.</li></ul>
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><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>
Implementation of a new payroll system in January 2015.	<p>Under ISA 315 there is a risk of material misstatement resulting from potential inaccurate or incomplete processing for routine transactions.</p>	<p><b>Further work planned</b></p> <ul style="list-style-type: none"><li>• Review of Council testing completed on data migration and verification of the accuracy of processed payments</li><li>• Substantive testing of employee expenditure for the period January – March 2015 in conjunction with testing of April – December 2014 payroll data</li><li>• Assessment of controls put in place by the Council to help manage the implementation</li></ul>

# 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 understated or not recorded in the correct period (Operating expenses understated)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Documented and identified the processes and key controls</li><li>• Walkthrough of controls to confirm our understanding</li><li>• Substantive testing of in year transactions for the 9 month period up to December 2014</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Detailed review and testing of year end accruals and creditor balances including confirmation that balances due have been settled after the year end</li><li>• "Cut off" testing to obtain assurance that creditors have been accounted for in the correct financial year</li><li>• Substantive testing of further transactions for the remaining 3 month period up to March 2015.</li></ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• Documented and identified the processes and key controls</li><li>• Walkthrough of controls to confirm our understanding</li><li>• We have commenced substantive testing of in year payments made to employees for the 9 month period up to December 2014. Testing has covered both the Council own in house payroll and those in relations to its schools, processed by CAPITA</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of payroll reconciliations including year end</li><li>• Additional substantive testing of payments made to employees for the period January to March 2015</li><li>• Use of analytical techniques to compare expected payroll costs with actual</li></ul>



# 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
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Documented and identified the processes and key controls</li><li>• Walkthrough of controls to confirm our understanding</li><li>• Agreement of the system parameters used to complete 2014/15 claims to the Department of Work &amp; Pensions notifications</li><li>• Substantive testing of claimant eligibility for the 9 month period up to December 2014</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review of reconciliation of welfare expenditure system to the general ledger and financial statements</li><li>• Housing Benefits Subsidy Claim testing using the agreed HBCOUNT audit approach</li><li>• Use of analytical techniques to compare total expected claimant payments with actual</li></ul>

# 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; and
- Assessment of the updates to revenue budgets and the Medium Term Financial Strategy 2015 – 2018 in light of the most recent local government finance settlement and the comprehensive spending review.

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

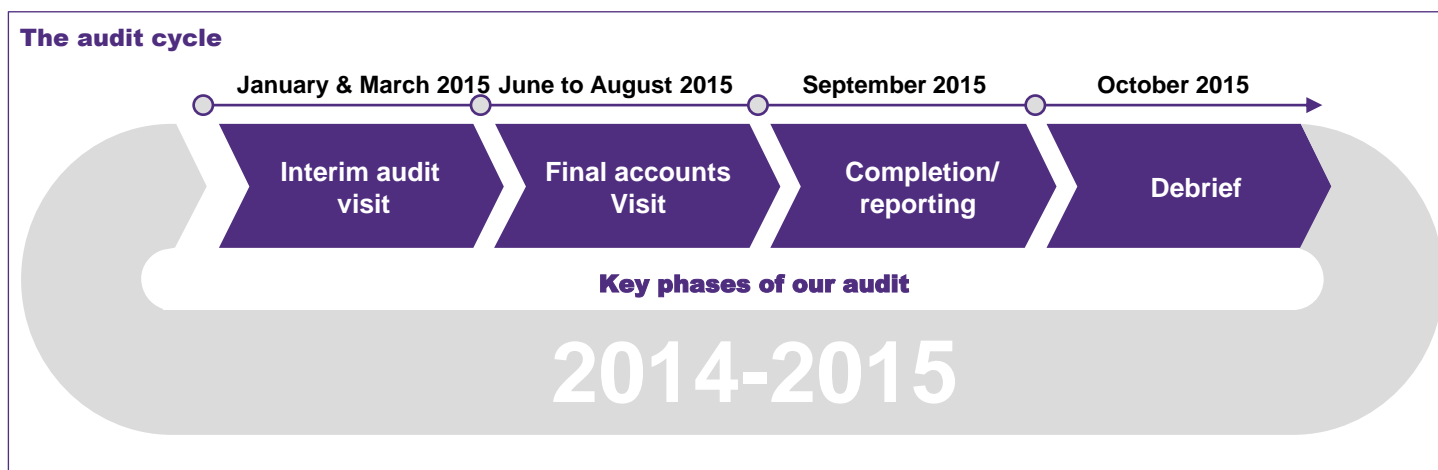
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.</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 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"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<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
<b>Review of information technology controls</b>	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.	We will report the findings of our work to you in the Audit Findings Report.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work to date has not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will complete our testing on the remaining 3 months of the year and assess year-end controls as part of audit of the 2014/15 financial statements.</p>

# Key dates



Date	Activity
January- February 2015	Planning
January & March 2015	Interim site visits
April 2015	Presentation of audit plan to Audit Committee
June – August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Director of Finance & IT
September 2015	Report audit findings to those charged with governance
By 30 September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	137,119
Grant certification	19,880
<b>Total fees (excluding VAT)</b>	<b>155,929</b>

### 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.
- 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 2013/2014	4,200
Regional Growth Fund (Accelerated Business Growth & FUSE)	To be confirmed

### 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](http://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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