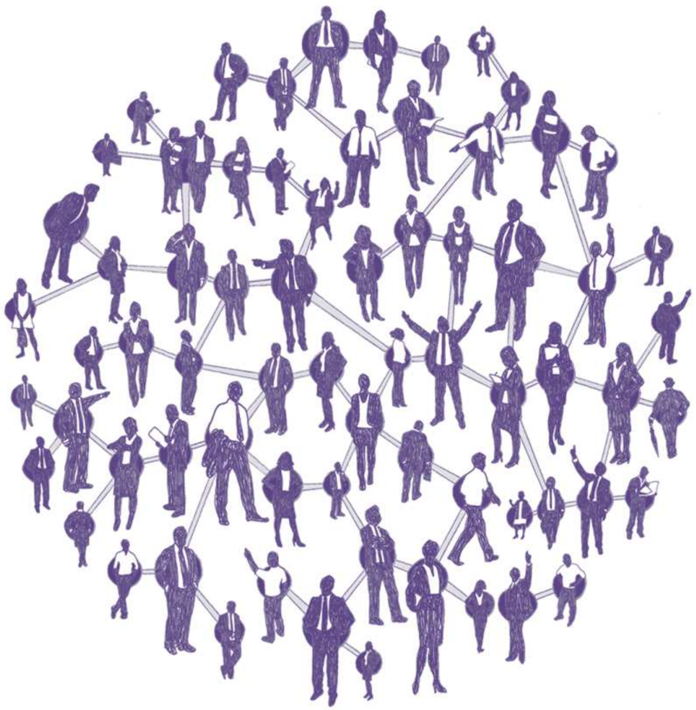
Item 5 Appendix A

The Audit Plan
for Somerset County Council

Year ended 31 March 2017

20 March 2017



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20 March 2017

Dear Members of the Audit Committee

Audit Plan for Somerset County Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Somerset County Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

-give an opinion on the Council's financial statements

-satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Peter Barber

Engagement Lead

Contents

Section

Understanding your business and key developments

Developments

Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Heart of the South West Devolution (HotSW)

To maintain the momentum achieved to date by the partnership a HotSW Productivity Plan to develop the strength of the Heart of the South West's economy is being created together with a Joint Committee of the HotSW partners to drive the development and delivery of the Plan. The Productivity Plan will replace the LEP's Strategic Economic Plan.

This will maximise what can be achieved within existing structures and resources through new ways of working as well as continue negotiations with Government over a range of policy agendas to help deliver the partnership's productivity ambitions.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. No plans were announced to increase funding for adult social care.

Medium term financial plan

The Council's revenue Strategy 2017/18 to 2020/21 maintains a cautious approach to estimating resources to achieve self-financing by 2020/21 by achieving efficiencies across seven themes of £18.1m in 17/18, with a further £6m in 18/19, £5.7m in 2019/20 and £3.4m in 2020/21.

Whilst a balanced budget has been set for 2017/18 it is on the basis that all targets included against each MTFP theme are achieved.

The Council has recognised service pressures of £5.6m in 17/18 but it is facing revenue budget shortfalls of £12.8m in 18/19, £4.6m in in 19/20, £4.6m in 19/20 and £2.1m in 20/21. This is a cumulative shortfall of £19.5m for the MTFP period.

Key performance indicators

Measure	Value £m	Risk
Q3 2016/17 Forecast Outturn (revenue budget) Overspend	£7.472m	Red

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced .The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

Following on from the early closure achieved in 2015/16 the Council plans to have the draft 2016/17 accounts completed by 31st May. Our intention is to complete our field work by the end of June, with the accounts formally approved at the Audit Committee on 27 July 2017.

Our response

- We aim to complete all our substantive audit work of your financial statements by 28th June 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops
- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified
- We will continue to liaise with senior officers to support the Council's development of alternative delivery models, including local government companies

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £14.559 million (being 1.8% of gross revenue expenditure in the prior year's accounts). In the previous year, we also determined materiality to be £15.07million (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £0.728 million.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosures of members allowances in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Disclosure of the audit fee in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Somerset County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Somerset County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Somerset County Council
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of accounting estimates, judgments and decisions made by management **Further work planned:** • Review of assurances from the Audit Committee and management in relation to fraud, law and regulations • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
The expenditure cycle includes fraudulent transactions	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.	We have considered this risk and do not consider it to require additional audit procedures because, of the 2015/16 financial statements expenditure • 35% relates to employee remuneration, which is addressed by our procedure in response to the identified risk in this area • 65% relates to operating expenditure which is addressed by our procedures in response to the identified risk in this area We do not consider this to be a risk to the audit as our experience is that expenditure is well controlled and monitored.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	**Work planned:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Valuation of property, plant and equipment and Investment property	The Council revalues its PPE assets on a rolling basis with assets revalued at least every five years . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements. The CIPFA Code of Practice implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include Investment property its financial statements at fair value, as defined by IFRS13. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.	**Work completed to date:** • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work **Further work planned:** • We will identify the controls put in place by management to ensure that the carrying values of property, plant and equipment, and investment property, are not materially different from fair value at the year end. We will also assess whether these controls were implemented as expected, and whether they are sufficient to mitigate the risk of material mis-statement. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Review and challenge the reasonableness of the proposed revaluations, including reference to national trends • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	**Work completed to date** • Documented our understanding of processes and key controls over the transaction cycle • Undertaken a walkthrough of the key controls to assess the whether those controls are designed effectively • Documentation of the processes in place for year end accruals • **Further work planned** • We will test a sample of operating expenses to ensure they have been accurately accounted for and in the correct period • We will undertake cut off testing of expenditure, including a review of payments made after the year end to identify unrecorded liabilities • We will review estimates, judgements and decisions made by management for unusual and large accruals
Employee remuneration	Employee remuneration accruals are understated	**Work completed to date** • Documented our understanding of processes and key controls over the transaction cycle • Undertaken a walkthrough of the key controls to assess the whether those controls are designed effectively and in line with our understanding • Review of monthly trend analysis of employee costs from April 2016 to December 2016 to identify any unusual or irregular movements • Early substantive testing on a sample of employees covering the period April 2016 to December 2016 **Further work planned** • We will complete our substantive testing of employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation • We will review the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements • We will review the monthly trend analysis of employee costs from January 2017 to March 2017 to identify any unusual or irregular movements.

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	**Work planned** • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.
Change in supplier of SAP system	There is a change of supplier for the ledger system SAP in 16/17 – changeover with effect from 20 January 2017.	• **Further work planned:** • We will need to review and evaluate the controls in place for this changeover to ensure that the data transfer was complete and accurate. • We will need go gain assurance over the accuracy and objectivity of data migration.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

Value for Money

Background

The Code requires us to consider 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of sound governance • Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing and utilising assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Reporting

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.

We will include our conclusion in our auditor's report on your financial statements which we will give by the end of July 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Sustainable Resource Deployment During 2016/17 the Council has experienced significant pressure on its budgets for Adult and Children's services resulting in significant in-year overspends. These have been offset by underspends elsewhere and a draw down on its reserves. The Medium Term Financial Plan (MTFP) approved by Full Council in February 2016 covered the period 2016/17 to 2020/21. The plan showed a balanced budget for 2016/17 with a shortfall of £37.292m for the next four years. An update on the MTFP position was provided to Cabinet on the 26 September 2016. This showed that the position had moved on to a shortfall of £35.616m covering the period 2017/18 to 2020/21. As part of the budget setting process for 2017/18 the MTFP was updated as at 6 February 2017 with target savings values identified across seven themed areas. Each theme is led by a Director and a Cabinet Member, supported by a dedicated Strategic Finance Manager. The 2017/18 budget has now been set with agreed savings of £18.119m. The cumulative shortfall over the remainder of the MTFP period is now £19.5m as follows: 2018/19 - £12.8m 2019/20 - £4.6m 2020/21 - £2.1m	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions and managing assets effectively to support the delivery of strategic priorities.	We will review the assumptions behind the MTFP, including the robustness of savings plans.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Ofsted inspection of children's services Following Ofsted's inspection of Children's Services in June 2013 and February 2015 'inadequate' ratings were given. The Department for Education has subsequently issued a direction notice to the Council. Improvement is now being monitored against nine priority areas. Arrangements with Essex County Council as Improvement Partners continue and are resulting in quarterly Quality and Performance Review meetings focussed on both operational and strategic improvement. The first of these took place in November 2015 and dates were scheduled until August 2016. There was an Ofsted monitoring visit to Somerset County Council Children's Services on 2/3 November 2016. Ofsted commented that SCC had "responded well" to its recommendations in 2015; Children and young people in need of help and protection receive a timely and effective response; and that partnerships are effective and strengthening. The overall findings from this monitoring visit indicated that the Local Authority was making adequate progress in improving services for children and young people in need of help and protection in Somerset. A second Ofsted Monitoring visit on 24-25 January focussed on safeguarding/children in need. A further visit is planned for early May 2017 focussing on 'children looked after'. However, until there is a re-inspection the overall rating remains as 'inadequate'.	This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.	We will review update reports to the Council on the progress against the improvement plan. We will also review any further updates from Ofsted as they become available and take these into account in forming our conclusion.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

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	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements.	Our work has not identified any issues which we wish to bring to your attention.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • 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	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Review of information technology controls	We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in the following areas where we consider that there is a risk of material misstatement to the financial statements: • Property Plant and Equipment • Employee Remuneration • Operating Expenses Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any other weaknesses which impact on our audit approach.
Journal entry controls	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.	As in prior years there is no requirement for journal inputs to be authorised by a second person as reported in the 2015/16 Audit Findings Report. Although no material issues have been noted and the Council consider that appropriate mitigating controls are in place to address this issue we will continue to report this matter through our reports to those charged with governance.
Early substantive testing	We have carried out some early substantive testing on: • Payroll M1-9 and carried out a trend analysis M1-9 • Depreciation – tested a sample of 10 items – no issues • Reviewed the basis for the significant estimates used in the financial statements • Agreed opening balances brought forward into the current year's accounts to the closing balances audited in the 2015/16 financial statements	No issues have been identified at this stage that require reporting.

The audit cycle

The audit timeline

Key dates:

- Year end: 31 March 2017
- Close out: July 2017
- Audit committee: **27 July 2017**
- Sign off: **27/28 July 2017**

Audit phases:

- Planning January 2017
- Interim January -Mar 2017
- Final June - July 2017
- Completion July 2017
- Debrief August/Sept 2017

Planning – Key elements

- Planning meeting with management to inform audit planning and agree audit timetable
- Issue audit working paper requirements to management
- Discussions with those charged with governance and internal audit to inform audit planning

Interim – Key elements

- Document design effectiveness of key accounting systems and processes
- Review of key judgements and estimates
- Early substantive audit testing
- Review of Value for Money arrangements
- Issue Progress report to management and Audit Committee
- Discuss draft Audit Plan with management
- Issue the Audit Plan to management and Audit Committee
- Meeting with Audit Committee to discuss the Audit Plan

Final – Key elements

- Audit teams onsite to complete detailed audit testing
- Weekly update meetings with management
- Review of Value for Money arrangements

Completion – Key elements

- July - Issue draft Audit Findings to management
- July - Meeting with management to discuss Audit Findings
- July - Issue draft Audit Findings to Audit Committee
- July 27 - Audit Findings presentation to Audit Committee
- July - Finalise approval and signing of financial statements and audit report
- September - Issue opinion on Whole of Government Accounts return
- October - Issue Annual Audit Letter

Audit Fees

Fees

	£
Council audit	99,873
Total audit fees (excluding VAT)	**99,873**

- Fee remains indicative until work is agreed and completed

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
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services detailed on the following page, 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.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular Audit Committee Progress Reports
- Regular sector updates
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular contact to discuss strategy and other important areas

Independence and non-audit services

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
Grant certification - Certification of Teachers Pension Return	*4,200	Grant certification
Grant certification – School centred initial teacher training	*3,750	Grant certification
Non-audit related		
None	Nil	

* Fee remains indicative until work is agreed and completed

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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 issues 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	✓	✓

Appendix 1: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Authorisation of Journals** To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that the Council includes in its journal policy the requirement that all journals should be authorised by a second person	Medium		

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