



The Audit Plan for Trafford Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

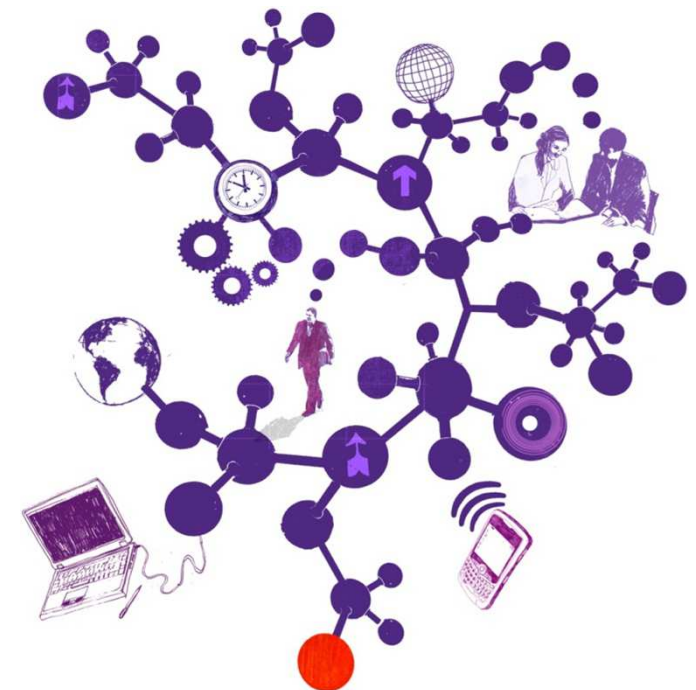
Year ended 31 March 2013

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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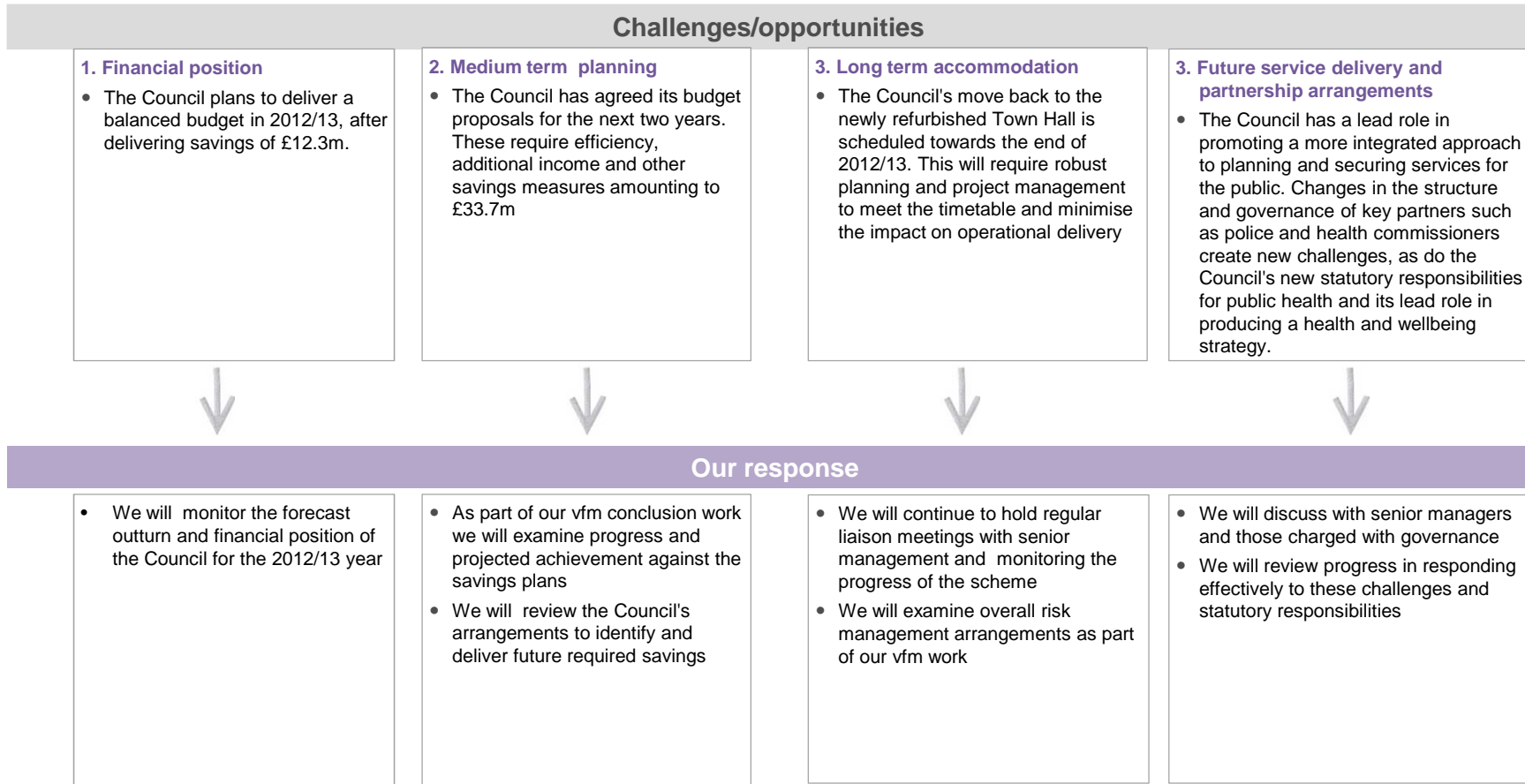
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Understanding your business

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.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

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

2. Legislation

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

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Continuing Financial Pressures

- Managing service provision with less resource
- Identifying savings and service plans for the longer term

5. Other requirements

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

Our response

We will ensure that

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

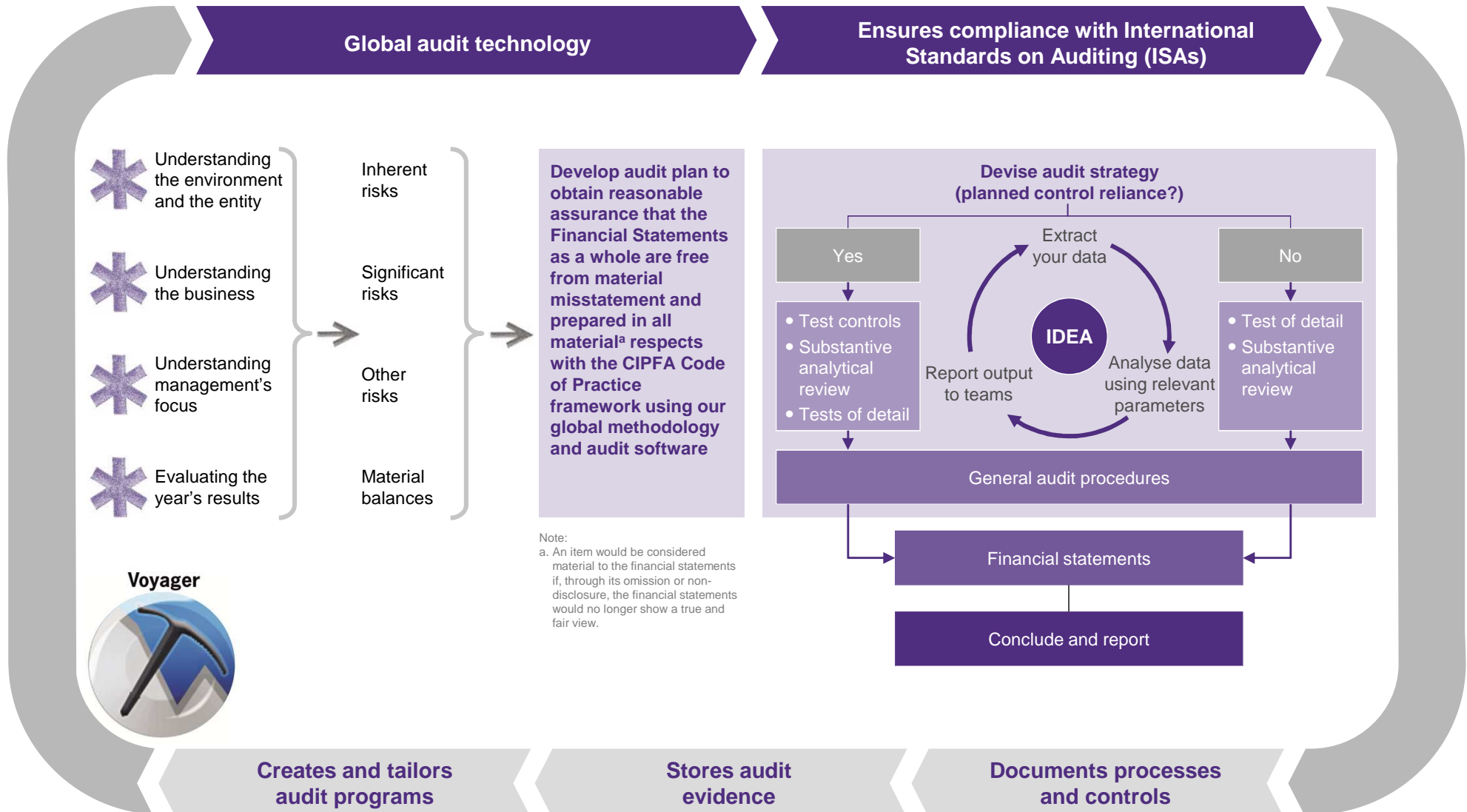
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing our views where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge from the audit

- We will review the Council's performance against the 2012/13 budget, and service plans and savings for the longer term
- We will undertake a review of Financial Resilience as part of our VFM conclusion

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

Our audit approach



An audit focused on risks

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

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

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

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

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-------------------------------|---------------|-----------------------------|--------------------------------------|----------------------|
| Cost of services - operating expenses | Yes | Operating expenses | Medium | Other | Operating expenses understated | ✓ |
| Cost of services – employee remuneration | Yes | Employee remuneration | Medium | Other | Remuneration expenses not correct | ✓ |
| Costs of services – Housing & council tax benefit | Yes | Welfare expenditure | Medium | Other | Welfare benefits improperly computed | ✓ |
| Cost of services – other revenues (fees & charges) | Yes | Other revenues | Low | None | | ✓ |
| (Gains)/ Loss on disposal of non current assets | Yes | Property, Plant and Equipment | Low | None | | ✓ |
| Payments to Housing Capital Receipts Pool | No | Property, Plant & Equipment | Low | None | | × |
| Precepts and Levies | Yes | 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 | | ✓ |
| Dividend income | No | Revenue | 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 ⁹ | 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 | No | Property, Plant & Equipment | Low | None | | × |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Yes | Employee remuneration | Low | None | | ✓ |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Medium | Other | PPE activity not valid | ✓ |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Medium | Other | Revaluation measurements not correct | ✓ |
| Heritage assets & Investment property | No | Property, Plant & Equipment | Low | None | | ✓ |
| Intangible assets | No | Intangible assets | Low | None | | × |
| Investments (long & short term) | Yes | Investments | Low | None | | × |
| Debtors (long & short term) | Yes | Revenue | Low | None | | ✓ |
| Assets held for sale | No | Property, Plant & Equipment | Low | None | | × |
| Investment properties | Yes | 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), including deferred liabilities | 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 | | ✓ |
| Grants receipts in advance | Yes | Grant and other contribution | 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 | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p><i>The presumption is rebutted at Trafford Council because:</i></p> <ul style="list-style-type: none"> - <i>The Council is bound by its approved budget, any revisions to which are subject to members' approval.</i> - <i>The majority of income is pre-determined and non-cash based i.e. relates to government grants and council tax. This reduces the likelihood of a material manipulation of income</i> - <i>Cash expenditure is not material, the majority of payments being made via automated processes</i> - <i>There are adequate controls in place to ensure income is appropriately recorded and not subject to manipulation.</i> | <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of testing on material revenue streams |
| Management override of controls | <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of entity level controls , including the role of the Audit Committee and Internal Audit <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries using computer assisted audit techniques (CAATs) • Review of IT general controls • 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 Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Substantive testing of operating expenses, 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 Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Substantive testing of year end balances, including year end adjustments |
| 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 Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Substantive testing of payroll entries |
| Welfare Expenditure | Welfare benefits improperly computed | <ul style="list-style-type: none"> Documented and identified the processes and key controls in the welfare expenses cycle Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Programme of work as part of the certification of the housing and council tax benefits subsidy grant claim |
| Property, Plant & Equipment | PPE activity not valid | <ul style="list-style-type: none"> Documented and identified the processes and key controls in the PPE cycle Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Substantive testing of PPE transactions |
| Property, Plant & Equipment | Revaluation measurements not correct | <ul style="list-style-type: none"> Documented and identified the processes and key controls in the PPE cycle Walked through a sample item to confirm our understanding | <ul style="list-style-type: none"> Substantive testing of PPE valuations |

Results of interim audit work

Scope

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

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

| | Work performed | Conclusion/ Summary |
|----------------------------|--|--|
| Internal audit | We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council | Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. |
| Walkthrough testing | Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. | There were no significant issues . Internal controls were in place in accordance with our documented understanding. |

Results of interim audit work (continued)

| | Work performed | Conclusion/ Summary |
|---|--|--|
| Review of information technology (IT) controls | 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 have also performed a follow up of the issues that have been raised in the previous year. | This work is in progress. We will report to you if there are any material weaknesses which may adversely impact on the Council's financial statements |
| Journal entry controls | We are planning to review the Council's journal entry policies and procedures. This will determine the journal entry testing strategy for the financial statements. | This work is currently in progress. We will report to you if there are any material weaknesses which may adversely impact on the Council's control environment or financial statements. |

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 Accounts and 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 and securing value for money.

Specifically we will:

- undertake a risk assessment based on the specified criteria and areas identified within the Audit Commission guidance
- update our understanding using existing available information, a review of key documents and our cumulative knowledge
- hold discussions with key officers and request further information as required
- select a sample of relevant key indicators of performance for benchmark analysis
- examine the Council's medium term financial planning arrangements in the context of resource prioritisation and financial resilience
- produce a financial resilience report

Logistics and our team

The audit cycle



| Date | Activity |
|------------------------|--|
| Scheduled 6 weekly | Planning and liaison meetings |
| February to April 2013 | Interim site work |
| March 2013 | The audit plan presented to the Accounts and Audit Committee |
| July 2013 | Year end fieldwork commences |
| September 2013 | Audit findings clearance meeting |
| September 2013 | Accounts and Audit Committee meeting to report our findings |
| September 2013 | Sign financial statements and VfM conclusion |
| October 2013 | Issue Annual Audit Letter |

Our team

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Fees and independence

Fees

| | £ |
|---------------------|----------------|
| Council audit | 156,119 |
| Grant certification | 21,500 |
| Total | 177,619 |

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 £ |
|--|--------------|
| Additional testing on 2009/10 and 2010/11 Housing benefits claims | 1,845 |
| Additional audit work responding to letters from members of the public | To be agreed |

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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