

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	External Audit Plan 2013/14
Meeting/Date:	Corporate Governance Panel 26 March 2014
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Accountancy Manager
Ward(s) affected:	All Wards

Executive Summary:

PricewaterhouseCoopers are appointed by the Audit Commission as the Councils auditors and have been with the authority since 2010/11. In preparation for the 2013/14 audit, the auditors are required to inform “those charged with governance” what their plans are in respect of the forthcoming audit. The external audit plan (see Annex) shows:

- how the auditors intend to undertake the 2013/14 audit.
- the risks that they have to consider.
- considerations in respect of fraud.
- the external audit team, and
- the Audit Fee in respect of the 2013/14 audit.

Recommendation(s):

It is recommended that the Panel notes the External Audit Plan for 2013/14 (attached) and:

- comments on the plan in general, and
- gives the auditors its views in respect of the £90,000 triviality threshold.

1. PURPOSE

1.1 PricewaterhouseCoopers are appointed as the Council's external auditors by the Audit Commission. As part of this appointment they are required to audit the accounts of the Council. To achieve this they issue an External Audit Plan, which is Annexed to this report. The plan shows:

- how the auditors intend to undertake the 2013/14 audit.
- the risks that they have to consider.
- considerations in respect of fraud.
- the external audit team, and
- the Audit Fee in respect of the 2013/14 audit.

2. BACKGROUND

2.1 The Audit Commission, as part of their responsibility of audit of local government, have appointed PricewaterhouseCoopers as the Councils external auditor.

2.2 Part of their responsibility is the audit of the Councils accounts, the Annual Financial Report and as part of achieving this responsibility they issue an Audit Plan. The key auditor's responsibilities of the audit plan are:

- Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing.
- Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.
- Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.
- Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.
- Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.
- Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.
- Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission

2.3 As the Corporate Governance Panel has responsibility for approving the Councils Annual Financial Report and the Annual Governance Statement, the Panel is asked to note the report and comment where it considers necessary.

3. AUDIT APPROACH FOR 2013/4

3.1 The audit is undertaken on a risk based approach and the auditors determine if the risks are significant, elevated or normal and whether there is a concern in respect of fraud, error or judgement.

The two main categories in respect of the audit of the accounts are those relating to significant or elevated risks and the definitions of each are as follows:

- **Significant**
Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.

- **Elevated**
Although not considered significant, the nature of the balance/area requires specific consideration

3.2 A summary of those risks that are significant, elevated or otherwise worthy of audit review are noted below:

3.2.1 Significant

i. **Management override of controls**

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

For example: accounting policies; estimation bases; journal entries; key controls in respect of bank reconciliation, purchasing and loans.

ii. **Revenue recognition**

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

For example: key controls in respect of revenue income and expenditure; application of the Code of Practice on Local Authority Accounting; detailed testing of areas considered to be of greatest risk.

3.2.2 Elevated

i. **Valuation of non-current assets (Leisure Centres)**

As Leisure Centres are a significant element of the Councils estate and as there has been a major enhancement within the asset category (One Leisure St Ives) during the year, this will be reviewed for 2013/14.

ii. **Council Tax Benefit Reform**

A new scheme for Council Tax Benefit has been introduced since April 2013; the Council Tax Support Scheme. As this is a material item of expenditure (in excess of £7.0m) and a new scheme this will require additional audit testing.

iii. **Other Code responsibilities**

Members will recall that the auditors highlighted four areas of note in respect of the 2012/13 Value for Money work (Financial position, Project management, Procurement & Contracting and Culture of control and compliance). The auditors are aware that a number of significant activities have been undertaken in the last year, but the auditors will:

- review the Council's financial planning and budget setting/monitoring processes to identify any areas of concern;
- consider significant contracts let during the year and review compliance with key fraud controls, as well as considering regularity and value for money of the contracts; and
- review the Council's progress against the recommendations we raised in 2012/13.

3.2.3 Other areas for audit review

The auditors will review the following areas as they are considered areas that may affect the financial statements but are not considered significant or elevated:

i. National Non-Domestic Rates

As a consequence of the changes to “localisation” of National Non-Domestic Rates, assurance will be needed that the accounting is correct and that the risks in respect of appeals are appropriate. The auditors, at this time, do not consider that the additional provision will be material.

ii. Council Restructuring

As a consequence of the senior management review a number of officers are “at risk of redundancy”. Although the auditors are not anticipating that the cost of such service change will be material, attention will be given to the disclosures relating to exit packages and senior manager remuneration.

3.3 Materiality

Materiality for 2013/14 has been set at £1.828m, which is based on 2% of 2012/13 expenditure.

Further, the auditors have set the “triviality” level as £90,000 i.e. those items of expenditure that do not have a material effect on the financial statements, even if accumulated. The auditors have requested that the views of the Panel in respect of the Triviality threshold are sought.

3.4 Main areas of work

As well as the review of the Annual Financial Report, the other main areas of audit work include:

i. Value for Money

To conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

ii. Annual Governance Statement (AGS)

To consider if the Councils AGS complies with the CIPFA/SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to the auditors us from their audit work.

iii. Whole of Government Accounts (WGA)

To issue an opinion on the WGA that was submitted to the Department of Communities and Local Government, in that whether it is consistent or inconsistent with the Annual Financial Report.

3.5 Fraud

The auditors will review the Councils management responsibility in respect of fraud and whether this is being discharged appropriately.

As part of the audit of the Annual Financial Report the auditors will enquire of the Panel:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

4. The PricewaterhouseCoopers Audit Team

The three principal audit team members are:

- **Engagement Leader;** Clive Everest.
It is Clive's third year as engagement leader with the Council.
- **Engagement Manager;** Jacqui Dudley.
Jacqui has taken over from Hayley Clark and is an experience audit manager within the local government sector.
- **Team Leader;** James Yanni.
James has worked previously at the Council and will lead the audit field team.

5. Audit Fee

- 5.1 The total audit "scale fee" for 2013/14, as set by the Audit Commission, is £87,481; this represents a significant reduction of 45.1% since 2011/12. A summary breakdown of audit fees is shown below:

Audit Fee				
	2011/12	2012/13	2013/14	Change since 2011/12
	£	£	£	%
Audit work performed under the Code of Audit Practice (*)	124,301	77,768	70,081	43.6
Certification of Claims and Returns	35,000	26,978	17,400	50.3
Total	159,301	104,746	87,481	45.1
*1 This includes audit work relating to the Annual Financial Report, Value for Money and Whole of Government Accounts				

- 5.2 The Panel will note that there is a significant reduction in the fees relating to the Certification of Claims and Return for 2013/14 when compared to the 2012/13. This is because of the changes during 2013/14 in respect of the Council Tax Support Scheme and the localisation of Business Rates in that there is expected to be less certification work relating to these grant schemes.

- 5.3 However, the auditors will be required to test the controls around each of the new schemes which may mean that there may be an increase in the fee for the audit work required in respect of the Annual Financial Report. The estimated maximum cost of this testing will be £19,000 and is made-up as follows:

- Additional "one-off" testing relating to the new arrangements for the Council Tax Support Scheme to ensure that the controls within the system are appropriate. It is estimated that the cost of this work will range between £7,000 and £9,000.
- "On-going" controls testing on both the Council Tax Support Scheme and Business Rates. It is estimated that the cost of this work will range between £8,000 and £10,000.

5.4 The auditors will update those charged with governance regarding the impact of this additional testing on the proposed audit fees in due course. The auditors have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We do not review more than three iterations of the statement of accounts and accounting statements;
- We are able to obtain assurance from your management controls;
- No '40+' testing is required for the certification of the Housing Benefit return;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

If the above prove to be unfounded, the auditors will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission.

6. LEGAL IMPLICATIONS

6.1 There are no direct legal implications arising from this report.

7. RESOURCE IMPLICATIONS

7.1 There may be additional audit fees as a consequence of the additional testing relating to the new Council Tax Support Scheme and the localisation of Business Rates. Such costs can be met from within existing resources.

LIST OF APPENDICES INCLUDED


Annex – Huntingdonshire District Council “External Audit Plan 2013/14”

BACKGROUND PAPERS


Working papers in Financial Services.

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