

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: External Audit Plan 2015/16

Meeting/Date: Corporate Governance Panel
9 March 2016

Executive Portfolio: Resources: Councillor J A Gray

Report by: Head of Resources

Ward(s) affected: All Wards

Executive Summary:

Ernst and Young have been appointed as the Council's external auditors commencing with the 2015/16 audit. The Council's previous auditors PricewaterhouseCoopers had been with the Council since 2010/11 until 2014/15.

In preparation for the 2015/16 audit, Ernst and Young are required to inform those charged with governance, how they plan to undertake the audit. The plan is attached as **Appendix 1**, and outlines:

- How the auditors expect to complete the audit and give an opinion.
- The risks the auditors will consider during the audit.
- Their approach to fraud detection.
- The tools and approaches they will use during the audit.
- The level of materiality.
- The scope and timetable of the audit.
- The audit teams.
- The audit fee.

Recommendation(s):

It is recommended that the Panel reviews the attached External Audit Plan 2015/16 (**Appendix 1**) and:

- Comments on the plan in general.
- Comments on the level of comfort with the updates the Panel will receive during the audit process.

1. PURPOSE

- 1.1 Ernst and Young have been appointed as the Council's external auditors, this is the first year that Ernst and Young are the Council's auditors, having taken over from PricewaterhouseCoopers, who were the Council's auditors from 2010/11 to 2014/15.
- 1.2 Ernst and Young are required to detail how the audit will be carried out, and this report describes their approach to the audit. Attached as **Appendix 1** is Ernst and Young's audit plan. The audit plan includes;
- How the auditors expect to complete the audit.
 - The financial statement risks they will consider.
 - Their responsibilities relating to fraud.
 - Which value for money risks they will consider.
 - The scope and timetable of the audit.
 - The audit fees.
 - The audit team.
- 1.3 The audit plan has been designed to take into account several key inputs;
- Strategic, operational, and financial risks relevant to the financial statements.
 - Developments in financial reporting and auditing standards.
 - The quality of systems and processes.
 - Changes in the business and regulatory environment.
 - The management's view on all of the above.
- 1.4 At the completion of the audit, Ernst and Young will issue an audit report giving their opinion on whether the Council's financial statements give a true and fair view of the Council's financial position as at the 31st March 2016.

2. BACKGROUND

- 2.1 In order for Ernst and Young to get to an opinion on whether the financial statements give a true and fair view, the scope of the work they will complete is:
- Review and report on the Council's financial statements.
 - Review and report on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.
 - Review and report to the National Audit Office (NAO) on the Whole of Government Accounts (WGA) return.
- 2.2 The review will take place under the International Standards on Auditing (UK and Ireland).

3. RISKS

- 3.1 Ernst and Young have assessed the risks that the Council is subject to, through discussion with those charged with governance and council officers. The risks can be broken down into two categories, financial statement risks and significant value for money risks.
- 3.2 The financial statement risks that the Council is subject to include:
- i) Property, plant and equipment risks
- Risks result from;
- Large asset values.

- The estimation that is needed to get to these values.

ii) Pension liability risk

Risks result from;

- The size of this liability on the balance sheet.
- Its valuation involves a significant amount of estimation.

iii) Revenue recognition risk

Risks result from;

- Improper recognition of revenue.
- Manipulation of expenditure recognition.

iv) Management override

Risks result from;

- Manipulation of accounting records.
- Management override of financial controls.

3.3 When assessing the value for money risks Ernst and Young will determine whether the Council has in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. Proper arrangements comprise:

- Take informed decisions.
- Deploy resources in a sustainable manner.
- Work with partners and third parties.

3.4 When considering the arrangements Ernst and Young will also draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that their assessment is made against a framework that should already be in place.

4. FRAUD

4.1 The primary responsibility to prevent and detect fraud lies with management, with those charged with governance having oversight of this. The responsibility of external auditors is perform audits that give reasonable assurance about whether the financial statements as a whole are free of material misstatements, whether caused by error or mistake. The audit plan is designed to consider such risks.

4.2 Based on the requirements of the auditing standards the approach to fraud detection will be:

- Understanding the oversight of those charged with governance.
- Identifying fraud risks during the planning stage.
- Enquiry of management about risks and control.
- Consideration of the effectiveness of management controls.
- Determining an appropriate strategy to identify risks of fraud.
- Performing mandatory procedures regardless of risks.

5. AUDIT APPROACH 2015/16

5.1 The audit will cover the following:

- i) Analytics

Ernst and Young will use computer-based analytics tools to capture whole populations of financial data, the data will then be subject to testing to identify exceptions and anomalies. This type of analysis will give an increased likelihood of identifying errors over random sampling.

ii) Internal Audit

Internal Audit's work in documenting the financial systems and controls, will be used to update Ernst and Young's understanding, and to carry out walk-throughs of those systems.

iii) Use of Specialists

When auditing key judgements, reliance will be placed on specialists, who have expertise not possessed by the core audit team. The specialists will be used to, analyse source data, assess assumptions, and judge whether the findings are reflected in the accounts.

iv) Mandatory Audit Procedures

Ernst and Young will also address the risk of fraud and error, review significant disclosures and corporate controls, report on inconsistencies in the financial statements and address auditor independence.

5.2 In this way the auditors will be able to assess key controls, identify significant risks and carry out substantive testing on transactions and balances.

Materiality

5.3 The level of materiality is defined as the magnitude of an omission or misstatement that individually or in aggregate could be expected to influence users of the accounts.

The materiality level for 2015/16 has been set at £1.75m based on 2% of gross revenue expenditure. In addition misstatements greater than £88,000 will be reported. It is possible that the level of materiality may change during the audit.

At the end of the audit Ernst and Young will form an audit opinion by reference to all matters that could be significant to users of the accounts, including the effect of misstatements.

Timetable

5.4 The timetable below show the key dates for the audit and also the dates at which Corporate Governance Panel (CGP) will receive reports and updates. The full detail of the required communications to those charged with governance are shown in Appendix B of the Audit Plan.

Audit Phase	Timetable	CGP Update	Deliverables
High level planning	April 2015 January 2016	9 March 2016	Audit Fee Letter Audit Plan
Risk assessment and scope setting	January	8 June 2016	Progress Report
Testing procedures	February/March	8 June 2016	Progress Report
Year-end audit	July/August	September 2016	

Completion of audit	September	September 2016	Report to those charged with governance Audit Report Audit Completion Certificate Report to NAO on WGA
Conclusion of reporting	October	tbc	Annual Audit Letter

Auditor Independence

5.5 The Ethical Standards require that Ernst and Young communicate with the Council on a timely basis on all significant matters that bear on their independence and objectivity. The aim of this is to ensure full and fair disclosure to those charged with governance.

Ernst and Young have highlighted within the Audit Plan threats to their independence and how they expect to mitigate these. The threats include:

- Self-interest threats – other on-going relationships.
- Self-review threats – fees payable to Ernst and Young are disclosed in the financial statements.
- Management threats – making decisions for the Council.
- Other threats – advocacy or intimidation.

6.0 AUDIT TEAM

6.1 The audit team leaders will comprise:

- Executive Director - Rob Murray
- Assistant Manager – Tony Poynton

7.0 AUDIT FEES

7.1 The total audit scale fee for 2015/16 is £71,372. This is a reduction of 55% since 2011/12. The reduction in fees for 2015/16 was required by Public Sector Audit Appointments.

Audit Fee							
	Actual 2011/12	Actual 2012/13	Actual 2013/14	Actual 2014/15	Scale 2015/16	Reduction since 2011/12	Reduction since 2011/12
	£	£	£	£	£	%	£
Audit work performed under the Code of Audit Practice (*)	124,301	77,768	83,834	78,481	53,236	(57)	(71,065)
Certification of Claims and Returns	35,000	24,484	26,269	18,380	18,136	(48)	(16,864)
Total	159,301	102,252	110,103	96,861	71,372	(55)	(87,929)
*This includes audit work relating to the Annual Financial Report, Value for Money and Whole of Government Accounts							

- 7.2 It is possible the fee may change if additional work is required because misstatements lead to extra testing, any changes to fees will be discussed with the Council in advance. The fee levels are based on the following assumptions:
- Officers meeting agreed timetable.
 - Reliance can be placed on the work of Internal Audit.
 - Accounts and value for money conclusions are unqualified.
 - Appropriate quality of documentation is provided.
 - The Council has an effective control environment.

- 7.3 Fees for consideration of correspondence from public and formal objections will be an additional charge.

8. KEY IMPACTS/RISKS

- 8.1 The risks associated with the actions in this report are financial statement risks and value for money risks, these risks are addressed in section 3.

9. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 9.1 The plan including key dates and milestones that are necessary in order to complete the audit successfully are included in paragraph 5.4.

10. LINK TO CORPORATE PLAN

- 10.1 Empower local communities – by providing an Annual Financial Report that provides accurate information on the Council's finances.
- 10.2 Become more business-like and efficient in the way we deliver services – by ensuring that the audit is well planned and executed.

11. LEGAL IMPLICATIONS

- 11.1 There are no direct legal implications arising from this report.

12. RESOURCE IMPLICATIONS

- 12.1 The 2015/16 budget for External Audit Fees is £90,000. The estimated fee for 2015/16 is £71,372, and therefore the budget should be sufficient to allow for any additional charges that arise during the audit.

13. OTHER IMPLICATIONS

- 13.1 No other implications.

14 REASONS FOR THE RECOMMENDED DECISIONS

- 14.1 It is recommended that the Panel reviews the attached External Audit Plan 2015/16 (**attached as Appendix 1**) and;
- Comments on the plan in general.
 - Comments on the level of comfort with the updates the Panel will receive during the audit process.

15. LIST OF APPENDICES INCLUDED

- 15.1 Appendix 1 – Huntingdonshire District Council Audit Plan 2015/16

BACKGROUND PAPERS

Ernst and Young Audit Plan

CONTACT OFFICERS

Clive Mason, Head of Resources
01480 388157

Oliver Colbert, Principal Accountant
01480 388067