

Horsham District Council

Accounts, Audit and Governance Committee Progress Report

March 2016



Building a better
working world

The Members
Accounts, Audit and Governance Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex, RH12 1RL

4 March 2016

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Accounts, Audit and Governance Committee in January 2016. The purpose of this report is to provide the Committee with an overview of our plans for the 2015/16 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psa.co.uk) (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Accounts, Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in April 2015.

Financial statements audit

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held an audit planning meeting with key officers to discuss significant issues for the audit, how we can work together to improve the accounts production and audit process for 2015/16 and bring the audit forward for 2016/17. We will continue to liaise with officers to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

We have set out an outline timetable for the audit in Appendix 1.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems has been completed and our review of the controls work performed by Internal Audit has commenced and will continue in March 2016.

There are no matters arising from our initial planning meetings that we need to bring to your attention at this stage. We will update the Committee when the planning and early substantive testing has been completed.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post Statements audit

We have agreed dates for our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to commence our post-statements work in July 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

“The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment”. There is no requirement for us to conclude or report against the following sub-criteria:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report any risks we have identified, and associated work we will carry out, to the Accounts. Audit & Governance Committee in March 2016.

2014/15 Grant Certification Work

We completed the certification of your 2014/15 housing benefit subsidy claim in November 2015. Our certification report is being presented as a separate item at this meeting.

Other matters of interest

Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.

The good news is that with sound planning, communication and joint working, those deadlines are highly attainable. The majority of councils are on the right trajectory having met the current reporting deadlines consistently for the last few years, the challenge now is upping the speed of that trajectory to achieve the faster deadlines. Below we have included some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the council is well placed to meet these new statutory deadlines.

As with any project the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no 'one size fits all' solution. However, there are areas where consideration can be given now:

- revisit the current project timetable;
- an early in-year financial hard close;
- review the format of your accounts;
- review your approach to estimates;
- review your year-end journal process;
- review the operation of your ledger system; and
- consider how fit for purpose is your current financial reporting system?

We will continue to organise regular meetings with the finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet.

Local appointment of auditors

The Department for Communities and Local Government has recently announced that it has decided to extend the existing arrangements for awarding external audit contracts by one year, to the end of 2017/18. From 2018/19 onwards, larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies will be responsible for appointing their own auditors, and directly managing the resulting contract. It is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2015/16 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Accounts, Audit and Governance Committee cycle. We will provide formal reports to the Accounts, Audit and Governance Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Accounts, Audit and Governance Committee	Status
High level planning	Ongoing	Audit Fee Letter	January 2016	Completed
Risk assessment and setting of scope of audit	December 2015 – January 2016	Audit Plan	March 2016	Completed
Testing of routine processes and controls	December 2015 – February 2016	Audit Plan	March 2016	Commenced, not yet completed
Year-end audit	June - August 2015	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	October 2016	Annual Audit Letter	November 2016	Not yet started

Audit phase	EY Timetable	Deliverable	Accounts, Audit and Governance Committee	Status
Grant Claims 2015/15	June 2016 and September – November 2016	Annual certification report	March 2017	Not yet started

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters through our Sector Briefings. The next briefing is due in December 2015.

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