

<b>AUDIT COMMITTEE</b>	AGENDA ITEM NO: 4
<b>29 JUNE 2016</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Resources Portfolio Holder, Cllr Seaton	
Committee Member(s) responsible:	Councillor Fuller, Chair of Audit Committee	
Contact Officer(s):	John Harrison, Corporate Director Resources Steven Pilsworth, Service Director Financial Services	Tel. 452398 Tel. 384564

## EXTERNAL AUDIT: AUDIT PLAN 2015/16

<b>RECOMMENDATIONS</b>	
<b>FROM</b> : Ernst and Young (EY)	<b>Deadline date</b> : N/A
The Committee is asked to:	
<ol style="list-style-type: none"> <li>1. Consider the External Audit Plan for 2015/16 and consider points raised by EY in the document: <ul style="list-style-type: none"> <li>• Proposed scope, comfortable with the audit risks, and approach;</li> <li>• Consider and respond to matters relating to fraud;</li> <li>• Consider and respond to the EY view on the value of misstatements; and</li> <li>• Note the audit fees for the year.</li> </ul> </li> <li>2. Provide comment on any amendments necessary</li> </ol>	

### 1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its Work Programme for 2015/16.

### 2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to consider and respond to the Audit Plan for 2015/16 from Ernst and Young (EY), the Council's external auditors, in accordance with the Committees' Terms of Reference:

2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance, and

2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.

### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	Not applicable
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### 4. EXTERNAL AUDIT PLAN

- 4.1 The 2015/16 audit will be the first year that the Council has Ernst and Young (EY) as its external auditor. The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsible will be discharged. It has been discussed and agreed jointly by Council representatives and External Audit (EY).
- 4.2 EY have worked through the transitional arrangements with its predecessors, PricewaterhouseCoopers, including a review of their files. The Plan (Appendix 1) summarises the preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines EY's planned audit strategy in response to those risks. The plan has been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the City Council and the local government sector.
- 4.3 There are a number of sections within the Plan as follows:
- a) **Overview** – contains the introductory paragraphs, and the framework for the audit.
  - b) **Financial statement risks** – EY complete this to enable them to determine where audit effort should be focused. There are a mix of types of risks identified, from the general risk such as management override of controls and fraud which any organisation would face and are not specific to the Council, and those more specific to the Council, such as the property valuation assumptions and methodologies used by the Council's external valuers, the accounting treatment for the Council's Private Finance Initiative, minimum revenue provision following the revised 2015/16 policy as agreed as part of the MTFS in March 2016, and the Council's assessment of the boundary with regards to Group Accounts. Other financial statement risks identified include recognition of the new financial system used by the Council and Better Care Fund accounting.
  - c) **Value of money risks (VFM)** – EY are required to consider whether the Council has in place 'proper arrangements' to secure economy, efficiency, and effectiveness on its use of resources. The significant VFM EY have identified regards budget pressures following central government reductions and the Council's savings plans.
  - d) **Audit process and strategy** – in order to be more efficient EY's intention is to carry out a fully substantive audit in 2015/16 rather than rely on the operation of controls.  
  
EY will liaise with Internal Audit to gain an understanding of the control environment, and use computer-based analytic tools to help identify specific exceptions and anomalies.  
  
EY set the materiality level in accordance with national auditing guidelines and standards. The level at which uncorrected audit misstatements are reported to Audit Committee has been decreased to £250k from the £500k used last year by PwC (£350k in the year prior to that). It has been set at this level in order to be consistent with the reporting level for Whole Government Accounts purposes. A calculation is made because if misstated amounts below this level are found the correction of them will not have a material effect on the Statement of Accounts. If however the misstatement has arisen due to a

control issue rather than a technical accounting adjustment, it will be reported to the Audit Committee in the Annual Report to Management.

- e) **Independence** – EY are required to report to Audit Committee all significant facts and matters that bear on their independence and objectivity.
- f) **Appendix A** – a breakdown of the agreed fees.
- g) **Appendix B** – UK required communications with those charged with governance.
- h) **Appendix C** – Detailed scopes.

## **5. CONSULTATION**

- 5.1 The Plan has been circulated to relevant officers for comment, including the Corporate Director Resources, Service Director Financial Services, Head of Corporate Finance, and the Chief Internal Auditor.

## **6 ANTICIPATED OUTCOMES**

- 6.1 Approval of the External Audit Plan 2015/16.

## **7 REASONS FOR RECOMMENDATIONS**

- 7.1 The Plan provides a summary of the Auditor's proposed work for 2015/16. Members can ask questions and make comments to the External Auditor on its contents and coverage.

## **8 ALTERNATIVE OPTIONS CONSIDERED**

- 8.1 The External Auditor can take on board responses received prior to the finalisation of the plan. No specific options are submitted for consideration.

## **9 IMPLICATIONS**

- 9.1 There are no direct implications arising from this Plan for Ernst and Young. Fees identified are commensurate with previous years, and are set by the Public Sector Audit Appointments body.

## **10 BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

External Audit Plan 2015/16

## **11 APPENDICES**

Appendix 1 – External Audit Plan 2015/16

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