

28 February 2017

ITEM: 11

Standards and Audit Committee

External Audit Plan 2016/2017

Wards and communities affected:

All

Key Decision:

Non-Key

Report of: Sean Clark, Director of Finance and IT

Accountable Head of Service: Sean Clark, Director of Finance and IT

Accountable Director: Sean Clark, Director of Finance and IT

This report is Public

Executive Summary

This report introduces the External Audit Plan for 2016/17 which will be presented by Ernst and Young.

1. Recommendation(s)

1.1 That the report be noted

2. Introduction and Background

2.1 This report introduces the Audit Plan that will cover the audit of the 2016/2017 financial statements and the assessment of the council's arrangements to secure economy, efficiency and effectiveness.

2.2 The plan sets out the audit process and the auditors will report on their findings to the Committee in September 2017.

2.3 The plan sets out the key risks and the areas the auditors will focus on.

2.4 The key financial statement risks identified are noted below along with steps taken by the Council to address them:

- Risk of Fraud in Revenue Recognition

There is a presumed audit risk that revenue may be misstated due to improper recognition. There have been no concerns raised in this area from either internal or external assessments in prior periods. The Council remains satisfied the revenue recognition processes in place remain appropriate.

- Risk of Management Override

There is a need for the external auditors to address the inherent risk of fraud present in all financial systems. There have been no concerns in these areas identified in previous years and no material weakness in the system of internal control has been identified.

- Preparation of Group Accounts

Gloriana Thurrock Ltd is a wholly owned subsidiary of the Council. The company produces accounts that will need be consolidated into the financial statements of the Council for the first time in 2016/17. This is a complex process and hence the risk of material error increases.

The Council has now completed an exercise to generate the Group figures for the 2015/16 comparative year and consequently is advanced in the assessment of the requirements for 2016/17.

- Property Valuation

The Council has a significant level of Property, Plant and Equipment which is subject to a rolling programme of valuations. There is an inherent risk that valuations may not be materially accurate.

The Council considers the existing processes in place continue to support the asset valuations in the balance sheet and continue to develop these processes to address any changes in either the asset base or in the valuation guidance.

- IAS 19 and Pensions

The Council's pension liability is a significant balance in the financial statements. The value of this figure is assessed by the actuary annually based on data supplied by the Council during the financial year.

There have been no concerns over the data in prior years and there are not expected to be any issues in this area.

- Changes to the Housing Rents and Housing Repairs system

The Council has moved to a new system to record the housing rents and repairs transactions from October 2016. Hence an audit risk has been identified over the migration of data between the Saffron and Northgate systems. There have been no specific concerns raised by the Housing accountant to date.

- Financial Statements Presentation

The Council is required to present the financial statements in accordance with the CIPFA Code of Practice. The requirements for the presentation of the primary statements have changed in 2016/17. The changes are designed to make a clearer link between the Council's management accounting reporting and the financial accounts. The changes increase the risk of material misstatement and to address this risk the Council will draft the amended statements to enable effective feedback on the new approach to be provided prior to inclusion in the financial accounts.

- 2.5 The external auditors continue to identify a significant value for money risk in respect of the pressures from the economic downturn in their initial assessment of the Council's arrangements to secure economy, efficiency and effectiveness. The Council has developed a detailed medium-term financial strategy to meet the significant financial challenges over next three years and continues to monitor all financial developments closely.
- 2.6 The proposed audit fees are set out in Appendix A. The planned fee for the main audit and VFM conclusion is £137,723 which represents a 3 per cent increase on the prior year. This is due to the requirement to audit the group accounts in 2016/17.

3. Issues, Options and Analysis of Options

- 3.1 The report is only for nothing as it is the report of the external auditors.

4. Reasons for Recommendation

- 4.1 To make the Committee aware of the external audit programme of work and the associated fees.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 There has been an ongoing dialogue between officers and the external auditors and the plan has been reviewed in detail.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 Robust financial processes safeguard the Council's assets that support the Council in delivering its policies and priorities

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**
Chief Accountant

These are included in the body of the report.

7.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Legal Services

There are no specific implications from this report.

7.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Officer

There are no specific implications from this report.

7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

There are no specific implications from the report

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. Appendices to the report

- Appendix 1 – Ernst and Young Audit Plan 2016/17

Report Author:

Jonathan Wilson
Chief Accountant, Corporate Finance