

Havant Borough Council

Governance & Audit Committee Progress Report

March 2016



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2 March 2016

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2014/15 audit plan, and our initial plans for the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is 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 audit.

Yours faithfully

Andrew Brittain
Executive Director
For and 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 (www.psaa.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 progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance & Audit 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.

Audit Progress 2014/15

2014/15

We are presenting our annual report on the certification of claims and returns to the Committee today. This completes our work in relation to the 2014/15 financial year.

Audit Progress 2015/16

Fee letter

We issued our 2015/16 fee letter to the Council on 1 July 2015.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we will continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our consideration at the earliest opportunity. .

Planning and interim visit

We are scheduled to complete our initial planning work, including the walkthrough of the key financial systems in February and March 2016. The Council implemented a number of new systems in October 2015, where this is the case we will be required to walk through both the old and new system, and undertake detailed testing of data migration.

We are currently working with officers to discuss the most efficient approach to the following issue which we have been made aware of:

- ▶ data migration of transactions from old to new systems – certain transaction dates migrated in English format from the old finance systems have defaulted to an American format in the new Civica system. This applies to the six months data migrated to the CIVICA system. We will work with officers to ensure that we can obtain sufficient assurance over the accuracy of postings and assess any impact on the financial statements of the Council.

We will update the Committee when the testing of controls 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 visit

We are in the process of finalising the exact dates for our audit visit, and we will have early discussions on the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Governance & Audit Committee in June 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

The NAO has 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.

And the sub criteria are:

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

Possible examples of risks to our VFM conclusion would include the governance arrangements of the joint corporate service tender and the ongoing financial resilience of the Council. We will carry out our detailed risk assessment during our interim visit and report the risks we have identified, and associated work we will carry out, to the Governance & Audit Committee in June 2016.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

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

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. We attach our quarter one briefing to this progress report.

Timetable 2015/16

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 Governance and Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Governance Status and Audit Committee
Notification of audit fee	April 2015	Audit Fee Letter	July 2015 Completed - Reported to the July 2015 Committee
Risk assessment and setting of scope of audit	Feb – April 2016	Audit Plan	June 2016
Testing of routine processes and controls and early substantive testing	Feb – April 2016	Audit Plan	June 2016
Year-end audit	June - August 2016	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 2016 -
Annual Reporting	October 2016	Annual Audit Letter	November 2016 -
Grant Claims	September – November 2016	Annual certification report	February 2017 -

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