

North Hertfordshire District Council

External Audit Update Report

December 2015

Ernst & Young LLP



EY

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Audit Committee
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Dear Members

External Audit Update

As Members will no doubt be aware EY have taken over from Grant Thornton LLP as the external auditors for the Council. Mick West was originally the nominated EY director for the Council's audit however following his departure from EY I have taken over this role. Both myself and Kay Storey, the audit manager responsible for the day to day management of the audit, have many years' experience of auditing local authorities.

We are pleased to attach our Audit Update Report. This report summarises the work we have undertaken to date and our plans for the remainder of the 2015/16 year. The purpose of the report is to provide the Audit Committee with an overview of the stage we have reached in our planning for the 2015/16 audit and ensure our audit is aligned with the Committee's service expectations.

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

Debbie Hanson
Ernst & Young LLP
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1. Summary

1.1 Financial statements

We are required to give an audit opinion on whether the financial statements of North Hertfordshire District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended.

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we review your published Council and committee minutes and papers along with the information we have on the wider local government environment. As at the end of December 2015, we have met with the Council's Strategic Director of Finance, Policy & Governance, and the Head of Finance, Performance & Asset Management to undertake some initial planning discussions. We have also undertaken a review of the predecessor auditor's files to assist with developing our understanding of the Council and to confirm we can place reliance on opening balances

We now need to undertake our more detailed planning procedures to complete our Audit Plan. We intend to undertake this detailed planning from 4 January 2016. This will include:

- ▶ Detailed discussions with senior officers to develop our understanding of the challenges and risks you are facing to inform our work on your financial statement and value for money arrangements.
- ▶ Discussions with key finance staff to identify and discuss risks and emerging issues around the financial statement preparation process.

Our provisional plan, subject to discussion with officers, is:

- ▶ to document our understanding of the Council's material income and expenditure systems by walkthrough testing; and
- ▶ to perform early substantive testing.

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

1.2 Certification of claims and returns

We will be required to undertake work on the certification of the Council's housing benefits return. We will need to undertake some high level procedures on this as part of our year-end audit of the financial statements. Our detailed testing of cases will be performed after the year-end audit.

1.3 Value for money conclusion

In November 2015, the National Audit Office (NAO) published its updated guidance for auditors for their review of arrangements to secure value for money.

The overall criterion for 2015/16 is:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

Beneath this overall criterion there are three sub criteria which are intended to help auditors in reaching their overall judgement but these are not separate and auditors are not required to reach a distinct judgement against each.

The table on the next page provides further detail on these three sub criteria.

Sub-criteria	Proper arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

1.4 Local appointment of auditors

The Department of Communities and Local Government has announced that it has decided to extend the existing arrangements for awarding external audit contracts to the end of 2017/18. From 2018/19 onwards, councils will be responsible for appointing their own auditors, and directly managing the resulting contract.

Although not taking effect until 2018/19, councils will need to start putting in place the mechanisms required to deliver this. The appointments will need to be in place from 31 December 2017 in order for the auditors to begin their audit from 1 April 2018. It is not yet clear whether there will be a sector-led body to carry out procurements and appointments on behalf of local government bodies. CIPFA has been asked by the Department to prepare guidance for local government bodies on developing local auditor panels. Existing external audit arrangements will remain unchanged for the 2015/16 to 2017/18 financial years.

2. Timetable

2.1 Audit timeline

We set out below a timetable showing the key stages of the audit, including the quality account, and the deliverables we will provide to you.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below. Our resourcing for the year-end audit is subject to change but the indicative position is set out in the table below.

Audit phase	Timetable	Deliverables
High level planning:	Already issued	▶ Audit Fee Letter
Risk assessment and setting of scope of audit	January 2016	▶ Audit Plan
Testing of routine processes and early substantive testing	January 2016	If required: ▶ Report to those charged with governance
Year-end audit	Beginning of August 2016 to end of first week in September	▶ Report to those charged with governance ▶ Audit report on the financial statements and value for money conclusion ▶ Audit completion certificate
Reporting	October 2016	▶ Annual Audit Letter

In addition to the above formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

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