

Three Rivers District Council

Year ending 31 March 2016

Audit Progress Report

28 June 2016

Ernst & Young LLP



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Audit Committee
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28 June 2016

Dear Members

Audit Progress Report – 2015/16

We are pleased to attach our Audit Progress Report. The purpose of this report is to provide the Audit Committee with an overview of the stage we have reached in your 2015/16 audit and to ensure our audit is aligned with the Committee's 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](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 Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the 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.

1. Planned Work

Meetings

We continue regular meetings with key officers as part of our ongoing audit process including:

- ▶ Our weekly meetings with key finance staff during our audit visits to discuss significant risks around the accounts and updates on our work; and
- ▶ Our quarterly updates with the Chief Executive and Senior Finance Officers to discuss the significant risks and other issues faced by the Council, our approach and progress with the audit.

Walk-throughs and tests of control

We have completed the majority of our walk-throughs of key financial systems and controls testing during March and April 2016.

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 complete and appropriate to do so, we can undertake procedures to enable us to place reliance on that work. For the 15/16 audit we will not be placing direct reliance on the work of Internal Audit.

Journal testing

We identified a number of manual journals that were both prepared and authorised by the same person, the majority of these did not have any supporting documentation. This is a control weakness as we would expect there to be a separation of duties over preparation and authorisation of journals and has led to the need for additional testing.

IT reliance

We carried out testing of IT General Controls (ITGC) as if we can place reliance on these controls it potentially reduces the amount of substantive testing we are required to do at the year end. However during our walkthrough we found exceptions relating to the design of the controls over system access, without any mitigating evidence. Therefore we are not able to place reliance on ITGCs this year. We have summarised our observations including applicable recommended improvements to officers so we can look to place reliance on ITGCs next year.

Post statements visit

We have now finalised the exact dates for our audit visit, and have had 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, was presented to the Committee in March 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.

2. Financial statement risks

As part of our planning procedures, we assess the financial statement risks facing the Council. With the adoption of IFRS13 into the Code we have identified a risk of misstatement in property valuation, so we are raising this as an additional significant risk (as shown below) and we plan to focus some additional attention in this area during the audit.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of error in Property Valuations	
<p>Auditing standards (ISA 620) require us to gain particular assurances when an expert has been engaged by an audited body and where this influences material figures in the financial statements. The Authority engages a professional valuer to provide it with asset valuations. These assets represent a material figure in the Authority's Accounts.</p> <p>From 2015/16, the Code of Practice on Local Authority Accounting in the United Kingdom adopted IFRS 13 for assets and liabilities included in the financial statements that either permit or require measurement at fair value.</p> <p>The 2014/15 balance showed a balance of £13 million for Investment Property, and therefore this change in approach will impact on material disclosures in the financial statements.</p> <p>As this is an initial audit engagement for us, we will also review the classification of assets in the balance sheet to gain assurance that Investment Property and other fixed assets are appropriately classified and valued.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing management's assumptions and source data concerning asset classification ▶ Assessing the competency and objectivity of management's valuer ▶ Assessing whether the scope of work undertaken by the valuer is sufficient ▶ Reviewing how the Authority satisfies itself that the valuations given provide it with the level of information it needs to provide reliable data and appropriate disclosures for the statement of accounts ▶ Reviewing the asset valuations, their valuation basis, and the assumptions behind them ▶ Evaluating whether the substance of the expert's findings is appropriately reflected in the financial statements ▶ Consideration of the accuracy and completeness of the source documents used by the valuer

We reported the other financial statements risks identified during our planning in our audit plan which came to the March Audit Committee.

Value for money

We carried out our initial risk assessment. We can confirm that at this stage we have not identified a significant risk in respect of value for money. Our assessment will continue throughout the audit cycle and we will update the Committee should anything change in respect of our assessment of this key area.

Claims and returns certification 2015/16

We have been unable to start work on the certification of your 2015/16 claims and returns as your housing benefit subsidy claim has not yet been submitted (deadline for submission to PSAA 30th April 2016). This is due to integrity errors that are preventing the claim from balancing and system downtime.

3. Timetable

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	January 2016	22 March 2016	Audit Fee Letter Progress Report
Risk assessment and setting of scopes	January 2016	22 March 2016	Audit Plan
Testing routine processes and controls	February 2016	28 June 2016	Progress Report
Year-end audit	July & August 2016		
Completion of audit	August 2016	27 September 2016	Report to those charged with governance via the Audit Results Report Audit report including our opinion on the financial statements and overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	November 2016	22 November 2016	Annual Audit Letter

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Local Government Audit Committee Briefings, which we will continue to share with you at future Committee meetings.

Appendix A Audit Progress

Progress against key deliverables

Key deliverables	Timetable in plan	Status	Comments
Audit Fee Letter	March 2016	Completed	Reported to Those Charged with Governance March 2016
Audit Plan	March 2016	Completed	Reported to Those Charged with Governance March 2016
Progress Report	June 2016	Completed	Reported to Those Charged with Governance June 2016
Report to those charged with governance	September 2016	Not due	
Audit report (including opinion and VFM conclusion)	September 2016	Not due	
Audit Completion Certificate	September 2016	Not due	
WGA certificate	September 2016	Not due	
Annual Audit Letter	December 2016	Not due	
Report on the Audit of Grant Claims	March 2017	Not due	

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