Financial Scrutiny and Audit Committee
9 July 2013
Agenda Item No 13

External Audit Plan 2012/13

Report by Head of Finance

Summary:	This report appends the Audit Plan for the 2012/13 audit by Ernst & Young.
Recommendation:	That the audit plan for the 2012/13 audit be noted.

1 Introduction

1.1 The Audit Plan for the 2012/13 audit by Ernst & Young is appended (Appendix 1). The plan sets out the work which the auditors propose to undertake for the audit of the financial statements and the value for money conclusion for 2012/13. It confirms that the audit fee will be £13,943, which represents a 40% reduction when compared with the 2011/12 audit fee and is in line with the Audit Commission's announcement on scale fees.

1.2 The Audit Manager, David Riglar, will be attending the meeting and will introduce the Audit Plan and answer any questions.

2 Identification of Significant Risks

2.1 The Audit Plan takes a risk-based approach to audit planning and identifies one significant risk in 2012/13, relating to the valuation of property, plant and equipment.

2.2 Other financial statement risks relate to the disclosure of exit packages and termination benefits and the risk of misstatement due to fraud and error.

2.3 The audit approach to these risks is set out in section two of the Audit Plan.

3 Financial Implications

3.1 Provision for the audit fee was included in the 2012/13 budget and has been charged in the accounts for the year.

Background papers:	None
Author:	Titus Adam
Date of report:	19 June 2013
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Ernst & Young Audit Plan 2012/13

Broads Authority

Year ending 31 March 2013

Audit Plan

March 2013

Ernst & Young

Financial Scrutiny and Audit Committee
Broads Authority
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

4 June 2013

Dear Member

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Financial Scrutiny and Audit Committee (FSAC) with a basis to review our proposed audit approach and scope for the 2012/13 audit. We will complete our work in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. We also want to ensure that our audit is aligned with the FSAC's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Broads Authority, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 9 July 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
Audit Director
For and on behalf of Ernst & Young LLP
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1. Overview

1.1 Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- Our audit opinion on whether the Authority's financial statements give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended.
- A statutory conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on the Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements.
- Developments in financial reporting and auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Authority.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4 and summarised below.

We will provide an update to the FSAC on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2013.

1.2 Our process and strategy

1.2.1 Financial statement audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Authority’s level of gross expenditure. We carry out an initial assessment of materiality using the financial statements for 2011/12 but will update this when we receive the draft and final 2012/13 financial statements. We also consider the size of useable reserves, the Authority’s financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

We aim to rely on the Authority’s entity level controls. We identify the controls we consider important and seek to place reliance on Internal Audit’s testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

We seek to place reliance on the work of Internal Audit wherever possible. We have already liaised with Internal Audit, established the systems they are testing and made arrangements to review this work.

There has been no change to the scope of our audit compared to previous audits.

1.2.2 Arrangements for securing economy, efficiency and effectiveness

We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

As set out in the Audit Commission’s Work Programme and Scales of Fees 2012/13: Local Government the approach to local VFM work is limited to:

- Reviewing the annual governance statement.
- Reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor’s responsibilities at the audited body.
- Undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing the Authority, identified through our knowledge of the entity's operations and discussion with members and officers.

Significant risks (including fraud risks)	Our audit approach
Property, Plant and Equipment	
Valuation of Property, Plant and Equipment	Our approach will focus on: ► Reliance on management experts ► Reliance on auditor experts ► Test of detail if required

Other financial statement risks	Our audit approach
Exit packages and termination benefits	
The Code requires disclosure of exit packages paid or agreed in the year. This is a sensitive disclosure and is therefore important that it is accurate. It should take into account any exit packages agreed but not paid by year end, for example for staff who will leave in the following year. Provision or accrual also needs to be made for such packages. HR officers should be involved in establishing the information required for this disclosure.	Our approach will focus on: ► Reviewing procedures for identifying exit packages, particularly those agreed before year end but not paid. ► Reviewing the appropriateness of provisions or accruals for such packages. ► Ensuring the disclosures are made in accordance with the Code.
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.	Based on the requirements of auditing standards our approach will focus on: ► Identifying any fraud risks during the planning stages. ► Inquiry of management about risks of fraud and the controls put in place to address those risks. ► Understanding the oversight given by the FSAC, as those charged with governance, of management's processes over fraud. ► Consideration of the effectiveness of management's controls designed to address the risk of fraud. ► Determining an appropriate strategy to address those identified risks of fraud. ► Performing mandatory procedures regardless of specifically identified fraud risks.

3. Economy, efficiency and effectiveness

Our work will focus on:

- A review of the annual governance statement.
- The results of the work of the Audit Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities for this Authority.
- Other local risk based work, as appropriate, or any work mandated by the Authority.

3.1 Identification of significant risks

In our planning work so far, we have not identified any significant risks which are relevant to our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Authority's:

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources

We issue a two-part audit report covering both of these objectives.

4.1.1 Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). This opinion covers the Authority's financial statements.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on the Whole of Government Accounts return

4.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- Arrangements for securing financial resilience – whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- Arrangements for securing economy, efficiency and effectiveness – whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Our audit involves:

- Assessing the key internal controls in place and testing the operation of these controls
- Review and re-performance of the work of Internal Audit
- Reliance on the work of other auditors where appropriate
- Reliance on the work of experts in relation to areas such as pensions and property valuations
- Substantive tests of detail of transactions and amounts

4.2.1 Processes

Our initial assessment of the key processes has identified the following key processes where we will seek to test key controls, relying on the work of internal audit where appropriate:

- Clear communication of roles and responsibilities.
- Authorisation of significant transactions.
- Procedures to prepare financial statements.
- Management's review of the entity's financial performance.

4.2.2 Analytics

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

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the FSAC.

4.2.3 Internal audit

As in prior years, we will review Internal Audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

4.2.4 Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements.

4.2.5 Other procedures

In addition to the key areas of emphasis outlined, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- Addressing the risk of fraud and error
- Significant disclosures included in the financial statements
- Entity-wide controls
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- Auditor independence

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the annual governance statement.
- Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- Reviewing, and where appropriate, examining evidence that is relevant to the Authority's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found which are not "clearly trivial" will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the Authority's audit is £13,943. This fee is predicated on the Authority preparing financial statements for audit which are free from material error and which are supported by good quality working papers.

4.5 Your audit team

The engagement team is led by Neil Harris who has significant experience of the Authority's audit. Neil is supported by David Riglar who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance. Mark Russell will supervise the on-site audit team and is responsible for raising and discussing emerging issues, Mark is also a point of contact for the Head of Finance.

The audit team give valuable continuity and knowledge of the Broads Authority having been the previous engagement team for the Audit Commission.

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4.6 Timetable of communication, deliverables and insights

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; and the deliverables we have agreed to provide through the FSAC cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the FSAC in September, incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the FSAC and we will discuss them with the FSAC Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Authority and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	FSAC timetable	Deliverables
High level planning	**December**		Audit Fee letter
Risk assessment and setting of scopes	**March**	July	Audit Plan
Walkthrough of routine processes and controls	**March**		Reporting of any significant matters if required
Draft accounts	**June**		Accounts received for audit
Year-end audit including WGA	**August - September**		
Reporting	**September**	September	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate
Reporting	**October**		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity and independence.

Final stage

- A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- Details of non-audit services provided and the fees charged in relation thereto.
- Written confirmation that we are independent.
- Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and the Authority’s policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that Ernst & Young and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

5.2.1 Self interest threats

A self interest threat arises when Ernst & Young has financial or other interests in the entity. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self interest threats at the date of this report.

5.2.2 Self review threats

Self review threats arise when the results of a non-audit service performed by Ernst & Young or others within the Ernst & Young network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

5.2.3 Management threats

Partners and employees of Ernst & Young are prohibited from taking decisions on behalf of management of the entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report

5.2.4 Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report

5.2.5 Overall assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Neil Harris, your audit engagement director, and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within Ernst & Young for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £	Actual Fee 2011/12 £	Explanation of variance
Total Audit Fee – Code work	13,943	23,238	40% reduction in line with Audit Commission announcement on scale fees

The agreed fee presented above is based on the following assumptions:

- The Authority provides good quality draft accounts which have undergone senior management review by 1 July 2013 and working papers which have similarly undergone review by 8 July 2013.
- Officers provide appropriate responses to queries and other information we request within agreed timescales.
- We are able to place reliance, as planned, on the work of Internal Audit.
- The level of risk in relation to the audit of accounts is consistent with that in the prior year.
- No significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based.
- Our accounts opinion and use of resources conclusion will be unqualified.
- The Authority maintains an effective control environment.
- There are no questions asked or objections made by local government electors.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Head of Finance and the FSAC in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Scrutiny Committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balance on initial audits	Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Report to those charged with governance
Fraud ► Enquiries of the Scrutiny Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Report to those charged with governance

Required communication	Reference
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Scrutiny Committee may be aware of	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence For listed companies, communication of minimum requirements as detailed in the ethical standards: ► Relationships between Ernst & Young, the audited body and senior management ► Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ► Related safeguards ► Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ► A statement of compliance with the ethical standards ► The Scrutiny Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit Plan Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Opening Balances (initial audits) ► Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
Certification work ► Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

Required communication	Reference
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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