



Dacorum Borough Council

Year ending 31 March 2013

Audit Plan

12 April 2013

Audit Committee
Dacorum Borough Council
Civic Centre
Marlowes
Hemel Hempstead
HP1 1HH

12 April 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 Audit Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, 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, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

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

We welcome the opportunity to discuss this report with you on 24 April 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson
Audit Director
For and on behalf of Ernst & Young LLP
Enc

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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 Council'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 Council'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 Council.

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 Audit Committee 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 Council'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 Council'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 Council's internal controls in the key financial systems. 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.

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.

We have considered the risks relevant to our value for money conclusion and have not identified at this stage any significant risks requiring specific risk-based work. We will keep our risk assessment under review taking into account: our discussions with the Council; our review of reports and minutes; the results of Internal Audit work; our opinion and certification work; review of the Annual Governance Statement; and the work of other regulators.

2. Financial statement risks

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

Significant risks (including fraud risks)	Our audit approach
<p><u>Valuation of Council Dwellings</u></p> <p>The valuation of these properties is based on estimation techniques. The estimate is highly sensitive, with small changes in the assumptions used in making an estimate of the value resulting in material changes in value.</p>	<p>Our approach will focus on</p> <ul style="list-style-type: none"> ▶ Reliance on management's expert ▶ Reliance on auditor expert ▶ Test of detail if required
<p><u>Public Service Quarter</u></p> <p>The Council has established plans to redevelop parts of Hemel Hempstead Town Centre, including the area on which the civic centre currently sits. To facilitate this, the Council has acquired a number of commercial properties which will be used to decant staff into as the development progresses. The valuation and classification of these properties has been identified as a significant risk.</p>	<p>Our approach will focus on</p> <ul style="list-style-type: none"> ▶ Testing of purchase documentation ▶ Testing of classification against relevant guidance, including the Code of Practice.
Other financial statement risks	Our audit approach
<p>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.</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ 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 Audit Committee, 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. <p>We will consider the results of the Audit Commission's National Fraud Initiative and may make reference to it in our reporting.</p>

3. Economy, efficiency and effectiveness

Our work will focus on whether the Council has proper arrangements in place to secure:

- ▶ Financial resilience
- ▶ Economy, efficiency and effectiveness in its use of resources

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 Council's arrangements. Specific areas we will focus on as part of this work include:

- ▶ Achievement of the 2012/13 budget
- ▶ Financial planning for 2013/14 and 2014/15

If our assessment of risk changes based on this work, we will report this to the Audit Committee.

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 Council'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). 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 Council 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 Council'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 Council 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 Council 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:

- ▶ Accounts payable
- ▶ Housing Rents

Other material items of account will be tested substantively at year end.

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 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 Audit Committee.

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 Council'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 Council's audit is £96,900, together with an estimated fee of £33,500 for the certification of grant claims and returns. This fee is predicated on the Council 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 Mark Hodgson who has significant experience of the Council's audit. Mark is supported by Stephen Bladen who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Interim Group Manager (Financial Services).

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 to through the Audit Committee 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 Audit Committee in September, incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	December		Audit Fee letter
Risk assessment and setting of scopes	March	Audit Committee	Audit Plan
Testing of routine processes and controls	March-April		Reporting of any significant matters if required
Draft accounts	1 July		Accounts received for audit
Year-end audit including WGA	August - September		
Reporting	September	Audit Committee	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). Audit completion certificate
Reporting	October		Annual Audit Letter
Reporting	December		Annual report on the certification of grant claims and returns

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 Council’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 Mark Hodgson, 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	96,900	148,580	40% reduction in line with Audit Commission announcement on scale fees
Certification of claims and returns*	33,500	69,826	See note below

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

- ▶ The Council provides good quality draft accounts, which have undergone senior management review by 1 July 2013, and working papers which have similarly undergone review by 19 August 2013.
- ▶ Officers provide appropriate responses to queries and other information we request within the agreed timescales to allow us to complete the audit fieldwork by 10 September 2013.
- ▶ 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 Council 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 Corporate Director (Finance & Governance) and the Audit Committee 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.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. This is based on the fee for the 2010/11 grant claim certification, adjusted for the schemes no longer requiring certification and reduced by 40%.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit 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 <ul style="list-style-type: none"> ▶ 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 <ul style="list-style-type: none"> ▶ 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 <ul style="list-style-type: none"> ▶ Enquiries of the Audit 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: <ul style="list-style-type: none"> ▶ 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 <ul style="list-style-type: none"> ▶ 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
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Report to those charged with governance</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ 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 audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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

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