

Uttlesford District Council

Year ending 31 March 2013

Audit Plan

31 January 2013

Performance and Audit Committee
Uttlesford District Council
London Road
Saffron Walden
Essex
CB11 4ER

31 January 2013

Dear Cllr Howell

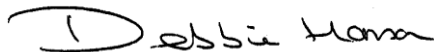
Audit Plan

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 Performance and Audit Committee with a basis to review our proposed audit approach and scope for the 2013 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 Committee's service expectations.

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

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

A handwritten signature in black ink that reads "Debbie Hanson". The signature is written in a cursive style with a large initial 'D'.

Debbie Hanson
For and behalf of Ernst & Young LLP
Enc

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1. Overview

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 March 2013 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

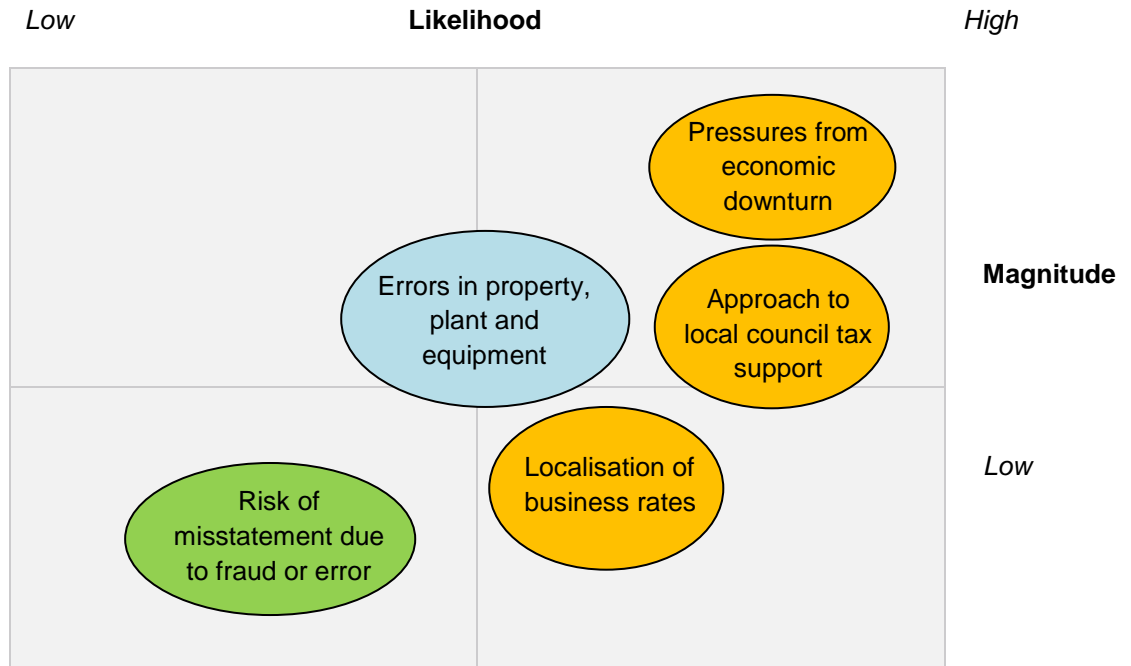
By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.





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

In parts 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 our value for money conclusion. We also outline our plans to address these risks.

Details of our audit process and strategy are set out in section 4.

The diagram below provides an overview of these matters.



-  Presentation and Disclosure
-  Judgements
-  Valuation
-  Value for money risk

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

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Uttlesford District 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>Errors in property, plant and equipment</p> <p>The prior year audit found that the Council had incorrectly accounted for some components of certain assets. This resulted in a material overstatement of property, plant and equipment in the balance sheet.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Agreeing property, plant and equipment on the balance sheet and supporting notes to the fixed asset register. ▶ Reviewing the fixed asset register to ensure that it is complete. ▶ Review the valuations in the fixed asset register to ensure that they are supported by evidence. |
| <p>Risk of misstatement due to fraud and error</p> <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 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 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. ▶ We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you. |

3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Uttlesford District Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

| Significant risks | Impacts arrangements for securing: | Our audit approach |
|---|---|---|
| Pressures from economic downturn | | |
| To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Comprehensive Spending Review will continue to impact on the Council's budget and MTFs during current and forthcoming financial years | Economy, efficiency and effectiveness Financial resilience | Our approach will focus on: <ul style="list-style-type: none"> ▶ The adequacy of the Council's budget setting process. ▶ The robustness of any assumptions. ▶ The effective use of scenario planning to assist the budget setting process. ▶ The effectiveness of in year monitoring against the budget. ▶ The Council's approach to prioritising resources. |
| Localisation of business rates | | |
| From April 2013, the Council will be able to retain some of its income from local business rates rather than paying the full amount back to central government. This localisation of business rates will impact upon the Council's income levels. | Economy, efficiency and effectiveness Financial resilience | Our approach will focus on: <ul style="list-style-type: none"> ▶ How the Council has planned for this change. Consideration of any future proposals to pool rate income with other Essex Authorities |
| Approach to local council tax support | | |
| The Local Council Tax Support (LCTS) scheme will take effect from April 2013. This will require the Council to set locally appropriate levels of council tax support. The Council has elected to apply to DCLG for one-off transition funding to support this change. The move to LCTS represents a significant change for the Council and brings both financial and reputational risks. | Economy, efficiency and effectiveness Financial resilience | Our approach will focus on: <ul style="list-style-type: none"> ▶ The Council's processes for the development and implementation of LCTS. ▶ How the Council has assessed the likely impact of the move to LCTS as part of its budget setting process. |

4. Our audit process and strategy

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:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

i) 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 your Whole of Government Accounts return

ii) 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; and
- ▶ 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.

Audit process overview

Our audit approach is to assess the Council's level of internal controls and to place reliance upon those controls where our assessment allows.

In doing so, we will look to rely upon the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards. We have discussed our requirements with Internal Audit, establishing which financial systems they are reviewing this year and have built this in to our work plan.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ General ledger
- ▶ Accounts receivable

- ▶ Procure to pay
- ▶ Business rates
- ▶ Cash and bank
- ▶ Housing benefits
- ▶ Housing rents
- ▶ Housing repairs

Analytics

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

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ 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 Performance and Audit Committee.

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 approach, when issues are raised that could impact the year-end financial statements.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have liaised with internal audit and their controls testing is due for completion in early March. At this stage we will review their work to ensure that we are able to place reliance on it. We anticipate that we will rely on their work in relation to the following systems:

- ▶ General ledger
- ▶ Cash and bank
- ▶ Accounts receivable
- ▶ Housing repairs
- ▶ Procure to pay
- ▶ Housing rents

Mandatory procedures

We will undertake the following mandatory procedures as required by auditing standards:

- ▶ Addressing the risk of fraud and error.

- ▶ Reviewing significant disclosures included in the financial statements.
- ▶ Assessing entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

The following procedures are also 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.

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 above this amount will be presented to you in our year-end report.

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 audit of Uttlesford District Council's accounts is £69,654. Further information is provided in Appendix A.

Your audit team

The engagement team is led by Debbie Hanson, who has significant experience of Uttlesford District Council. Debbie is supported by Emma Patchett who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

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 conclusion and the whole of government accounts; and the deliverables we have agreed to provide to you through the Performance and Audit Committee cycle in 2013. These dates are determined to ensure our alignment with the Performance and Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Performance and Audit Committee in September detailing the findings from our year end audit. From time to time matters may arise that require immediate communication with the Performance and Audit Committee and we will discuss them with the Chairman 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 | Deliverables |
|---|---------------------------|--|
| High level planning; | December | Audit Fee letter |
| Risk assessment and setting of scopes | December / January | Audit Plan |
| Testing of routine processes and controls | January to March | |
| Year-end audit | July – September | |
| | | 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. This will also report on our Whole of Government accounts work). |
| | | 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

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 your governance on matters in which you have an interest.

| Required communications | |
|--|--|
| Planning stage | Final stage |
| <ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. | <ul style="list-style-type: none"> ▶ 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 your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you 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 EY 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.

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.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; 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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY 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.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your 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.

Other threats

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

There are no other threats at the date of this report

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Other required communications

Ernst & Young (EY) 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 EY 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 |
|--------------------------------------|------------------------|-----------------------|
| | £ | £ |
| Total Audit Fee – Code work | 69,654 | 116,090 |
| Certification of claims and returns* | 19,950 | 41,334 |

The reduction in fees between 2011/12 and 2012/13, resulted from the Government procurement exercise to outsource external audit services

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

- ▶ Officers meeting the agreed timetable of deliverables.
- ▶ 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 (where we have prior year experience).
- ▶ No significant changes being 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 being unqualified.
- ▶ Appropriate quality of documentation is provided by the audited body.
- ▶ There is an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you 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.

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 | Report to those charged with governance |
| <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 | |
| Misstatements | Report to those charged with governance |
| <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 | |
| Fraud | Report to those charged with governance |
| <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 | |
| Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: | Report to those charged with governance |
| <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 | |
| External confirmations | Report to those charged with governance |
| <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 | |
| Consideration of laws and regulations | Report to those charged with governance |
| <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 | |
| 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: | Audit Plan Report to those charged with governance |
| <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 | |
| Going concern Events or conditions identified that may cast significant doubt on the entity's ability to | Report to those charged with governance |

| Required communication | Reference |
|---|---|
| continue as a going concern, including: <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 | Report to those charged with governance |
| Significant deficiencies in internal controls identified during the audit | Report to those charged with governance |
| Certification work | Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary |
| <ul style="list-style-type: none"> ▶ Summary of certification work undertaken | Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary |
| Fee Information | Audit Plan |
| <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit | Report to those charged with governance and Annual Audit Letter if considered necessary |

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