

# Welwyn Hatfield Borough Council

Audit Committee

External Audit Progress Report

12 March 2018



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12 March 2018

Audit Committee  
Welwyn Hatfield Borough Council

Dear Committee Member

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2017/18 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the Audit Plan or the Audit Results Report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

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

Yours faithfully

Neil Harris  
Associate Partner  
For and behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Welwyn Hatfield Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Welwyn Hatfield Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Welwyn Hatfield Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 2017/18 audit

## Audit status

This is our progress report for the 2017/18 audit year. Appendix A is a summary of the key deliverables and progress against these.

## Audit Planning

We audit the Council's Statement of Accounts in accordance with the requirements of the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

At the conclusion of our work, we provide an opinion on whether the financial statements give a true and fair view of the financial position of the Council and of its expenditure for the financial year under audit.

We completed our planning for the 2017/18 audit issued our Audit Plan in January 2018.

## Significant risks

Our Audit Plan set out the significant and other risks we identified as part of planning procedures that influenced our audit strategy. The significant risks identified are:

- Risk of fraud in revenue and expenditure recognition

In our Audit Plan we set out that this risk is focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals and provisions. We have carefully considered the revenue and expenditure streams of the Council and considered each against the risk of fraud in revenue and expenditure recognition. In making this assessment, we have considered:

- Our assessment of the control environment at Welwyn Hatfield Borough Council relevant to opportunities and incentives to commit revenue recognition fraud
- The statutory framework in place to regulate local government finance
- The nature of the financial regime established in local government
- The nature of the financial transactions undertaken by Welwyn Hatfield Borough Council, and whether these present both the opportunity and incentive to engage in material revenue manipulation

Having considered each of the streams, we have concluded that, in view of our understanding of the revenue and expenditure streams, the risk of material misstatement arising from inappropriate revenue recognition has a low likelihood of occurrence and is unlikely to be of a size which would be material to the users of the financial statements. We have therefore rebutted the risk of fraud in revenue and expenditure recognition. We will keep this assessment under review and report to you any changes to this assessment.

- Management override

We have considered generic risk factors that could indicate how specific risks of management override manifests itself at the Council, such as the financial position and historic performance against budget. We have also considered the specific additional risks of management override as they relate to local government accounts. Based on our consideration of the key areas susceptible to management override we have concluded that the area that management have the greatest opportunity to override controls is within non system accruals where judgements and estimates are made.

We will update the Audit Committee with our findings in our Audit Results Report in July 2018.

## Other areas of audit focus

As set out in the Audit Plan, we have identified areas that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report. These are:

- Valuation of land and buildings
- Pension liabilities
- Early closedown of accounts

In order to facilitate the earlier statutory deadline for the audit of the financial statements, we agreed with the Council a range of early substantive testing to be undertaken in February. We have completed work in the following areas:

- Month 9 data analytics – the Council provided M9 data analytics for the general ledger and payroll that we used to undertake early testing. We have identified that the data analytics information requires better mapping which the Council is working on with the EY data analytics team. Due to the workload of the finance team on budget and council tax setting, the data was not delivered to the EY analytics team on the agreed date which had some implications on our ability to complete the testing planned. Both the audit team and finance team are committed to work together to ensure requirements and timescales are clear on both sides.
- Substantive analytical reviews for council tax and non-domestic rates
- Precepts testing
- Expenditure testing – evidence has been supplied for 49 of 54 items. These have been reviewed by the audit team and follow up queries sent to the finance team where appropriate
- Income testing – evidence has been supplied and is awaiting review by the audit team
- Leases - evidence has been supplied and is awaiting review by the audit team
- Journals – analysis completed to month 9
- Pension disclosures – work started
- Accumulated Absence reserve
- Members allowances
- Significant contract review

The audit team and the finance team will continue to work together to bring work forward, reducing pressure on both teams at the year-end audit. Key areas to consider are:

- Property, plant and equipment – additions and disposals
- Property, plant and equipment - information to support existence testing
- Property, plant and equipment – information to support valuations testing
- Grant income – evidence to support
- Draft accounting policies and various disclosure notes that can be drafted early

We have completed our walkthroughs of the Council's material financial systems which has confirmed our understanding of the systems in place at the Council.

We will be undertaking our audit of the draft financial statements in May/June 2018 and will report our findings in our Audit Results Report to the July Audit Committee.

## **Audit Committee Briefing**

Our Audit Committee Briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to new and existing local government bodies.

The current briefing was circulated to members outside of the meeting. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

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