

Ernst & Young Progress Update

Date of Meeting: 22 January 2013
Report of: Ernst & Young
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Ward(s) affected: All

1. SUMMARY AND POLICY CONTEXT:

- 1.1 We would like the Committee to review the 2012/13 external audit progress update set out below and attached sector briefing.

2. RECOMMENDATIONS:

- 2.1 To consider the 2012/13 external audit progress update and attached sector update, ask questions as necessary and note the progress made.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 On 1 November audit staff in the Audit Commission's Audit Practice transferred to the firms that won contracts in ten geographical areas across England. Ernst and Young (EY) is now the appointed auditor for Brighton & Hove City Council. The contract has been awarded for five years starting in 2012/13. The scale fee for the audit has been fixed for the duration of the contract at a level 40 per cent lower than the scale fee for 2011/12. The scope of the audit, as set out in the Audit Commission's Code of Audit Practice, remains unchanged.
- 3.2 The Council's previous external auditor, the Audit Commission, presented a progress report to each meeting of the Audit & Standards Committee. EY, as the Council's new external auditor, intends to continue to present an update and sector briefing to each meeting of the Committee to provide a summary of progress made and details of any significant issues arising.
- 3.3 We welcome feedback from the Audit & Standards Committee on any improvements it would like to either the format or content of the report.

4. 2011/12 AUDIT:

- 4.1 The 2011/12 audit is now complete. We are presenting the final report from our 2011/12 programme of work, our annual report on the certification of claims and returns, to this January meeting of the Committee.

5. 2012/13 AUDIT:

Audit of the financial statements

5.1 We are about to start our work to document and walkthrough the Council's main financial systems, which is the first stage of our audit work. We have met with both finance officers and Internal Audit to discuss our approach. We are seeking to maximise reliance on financial controls operated by the Council and have liaised with Internal Audit to ensure that our work to test financial controls is properly co-ordinated and aligned to minimise any duplication of effort. We will set out significant risks and other issues impacting on our audit of the financial statements in our 2012/13 Audit Plan which we intend to present to the April meeting of the Committee.

5.2 At the last meeting of the Committee we discussed the potential to use EY's data analytics approach to support the audit of the financial statements. The Council has agreed to act as a pilot site to test the feasibility of this. The approach has the potential to provide a number of benefits to the Council:

- The entire population of data is considered rather than the traditional audit approach of testing a sample of data. This offers a greater level of assurance.
- The analysis of transaction data can help to highlight unusual trends and identify control deficiencies.
- Analysis of the entire data set allows audit to be focused on the greatest areas of risk.
- The identification and quantification of data quality issues
- The possibility of benchmarking results across audited bodies.

We are liaising with Internal Audit when conducting this work so that it is properly integrated with any data analysis work already undertaken at the Council.

5.3 The following data analytics modules have been included in the pilot approach for the Council:

- Journal entry testing.
- Accounts receivable analysis.
- Accounts payable analysis.
- Payroll analysis

Part-year data has now been obtained for all modules apart from payroll and we hope to be able to provide members with a more detailed verbal update on progress at the Committee meeting.

Value for money (VFM) conclusion

5.4 We assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the VFM conclusion.

5.5 There has been no change from 2011/12 to the two criteria on which the statutory VFM conclusion is given. They are:

- *Financial resilience* – the organisation has proper arrangements in place for securing financial resilience.
- *Securing value for money* – the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

5.6 We are planning our approach to inform the 2012/13 VFM conclusion and aim to share the precise nature of our work in this area when we present our Audit Plan to the next Committee. Key issues and risks impacting on all local government bodies include the following:

- outcomes and impact of the local government finance settlement;
- the scale of the challenge for councils to maintain services and effectiveness with reduced funding;
- changes to the arrangements for governance, scrutiny and standards arising from the Localism Act 2011;
- the impact of the Welfare Reform Act 2012;
- potential changes to local government finance from 2013/14, arising from the Local Government Finance Act 2012;
- the impact of changes to public health arrangements; and
- potential changes to the local government pension scheme.

6. EY SECTOR BRIEFING:

6.1 A short briefing of current issues and developments affecting local government is attached for Members' information.

