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# External Audit: Progress Report

## London Borough of Ealing

June 2014

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### Background

The external auditors of the Council are currently appointed by the Audit Commission. KPMG were appointed as the external auditors to London Borough of Ealing from 1 September 2012 under a five year contract covering the financial years from 2012/13 to 2016/17. There is an option for this to be extended by three years.

Following the Local Audit and Accountability Act 2014 receiving Royal Assent, the Audit Commission is expected to close on 31 March 2015. In its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or in 2019/20 if they are extended. A transitional body, which is being set up by the Local Government Association, will oversee the contracts in the intervening period.

The audit fee for the Council is set annually by the Audit Commission. Any changes to the audit fee as a result of any additional, or reduced, work needs to be agreed by the Council and the Audit Commission.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. The Code of Audit Practice summarises our responsibilities into two objectives, requiring us to review and report on your:

- financial statements (including the Annual Governance Statement): providing an opinion on your accounts; and
- use of resources: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council.

### Local elector rights

The Audit Commission Act 1998 also gives local electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

Where a local elector objects to the accounts, the external auditor is required to consider and conclude on the issues received prior to issuing the audit certificate.

### Grants claims

The Audit Commission requires the external auditor to certify specific grant claims and returns for central Government departments. The number of claims and returns required to be certified has decreased over the years and there are now two that are relevant to the Council, housing benefit claim and pooling of housing capital receipts return.

### Whole of Government Accounts

The external auditor is required to issue a conclusion on whether the Whole of Government Accounts pack that the Council submits to the Treasury are consistent with the audited financial statements. We are also required to audit balances with other Government bodies as part of this work.

### Pension Fund

The Audit Commission requires the external auditor to issue an opinion on the Pension Fund Accounts and the Pension Fund Annual Report.

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<p><b>Summary of work performed by KPMG for 2013/14 financial year to date</b></p>	<p>We completed our initial planning work in February 2014 to determine our audit plan. This comprised of:</p> <ul style="list-style-type: none"> <li>• Review of Council minutes including exempt items;</li> <li>• Discussions with senior officers including Executive Director of Corporate Resources, Director of Finance and the interim Head of Audit and Investigations;</li> <li>• Past audit knowledge of the Council and similar authorities (KPMG currently audit 11 London boroughs); and</li> <li>• Changes in legislation and accounting requirements.</li> </ul> <p>In line with auditing standards, we presented our detailed annual plan to the Audit Committee in March 2014. This highlighted the key risks to our audit at the planning stages, the first two which are standard risks for all organisations:</p> <ul style="list-style-type: none"> <li>• Management override of controls;</li> <li>• Fraudulent revenue recognition; and</li> <li>• Triennial valuation of the Pension Fund and subsequent in year updates.</li> </ul> <p>In April we completed an interim audit visit where we carried out audit testing on a number of controls, including those around journals and bank reconciliations. In connection with our value for money conclusion, we reviewed the Council's in year financial position and the 2014/15 budget.</p> <p>We have also received a query from a member of the public that we are currently discussing with officers.</p> <p>There is nothing that we need to raise with the Audit Committee in relation to the audit of the accounts from the work we have carried out to date.</p>
<p><b>Summary of work proposed over next quarter</b></p>	<p>Our work over the next quarter will focus on:</p> <ul style="list-style-type: none"> <li>• Detailed planning and audit of your 2013/14 financial statements including the Annual Governance Statement and Pension Fund;</li> <li>• Review of your arrangements in place for securing economy, efficiency and effectiveness in your use of resources – this will include reviewing your medium term financial plan and in year financial performance;</li> <li>• Preparing our ISA 260 Report to the Audit Committee to report to you the key findings of our audit; and</li> <li>• Starting the detailed audit work on your housing benefit claim.</li> </ul>
<p><b>Audit fee update</b></p>	<p>The proposed audit fee remains at £219,510 for the Council's audit and £21,000 for the Pension Fund. However, following changes in the number of grants the Audit Commission require us to audit, with the Audit Commission no longer responsible for arranging the audit of the Teachers' Pension Return and no longer a need to audit Council Tax benefit, the proposed grant fee has been reduced by the Audit Commission from £46,500 to £37,388.</p>

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### Detailed timetable

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2013	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2014	Audit Committee March 2014
<b>Interim</b>			
Interim work	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2014	Completed
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	Final draft end of August 2014 To Audit Committee September 2014	TBC
<b>Completion</b>			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	TBC
<b>Certification of claims and returns</b>			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2014	TBC
<b>Actions</b>	The Audit Committee is asked to: <ul style="list-style-type: none"> <li><b>NOTE</b> this progress report.</li> </ul>		
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