



Audit Committee 31st January 2019

Title	External Audit Plan 2018/19
Report of	Director of Finance (Section 151 Officer)
Wards	Not Applicable
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Audit Plan to the Audit Committee
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Summary

This report advises the committee of BDO's audit plan for 2018/19.

Recommendations

1. The Audit Committee are asked to note BDO's audit plan for 2018/19.
2. The Audit Committee are asked to note the fee of £197,262 for the 2017/18 audit and the fee of £21,617 for certification of the housing benefits subsidy return, as set out in paragraph 6.8.

1. WHY THIS REPORT IS NEEDED

- 1.1 The purpose of the audit plan is to highlight to the Committee the key elements of BDO's external audit strategy for the audit for the year ended 31 March 2019.

2. REASONS FOR RECOMMENDATIONS

- 2.1 To ensure that the Audit Committee are aware of the external audit scope and objectives, overall audit strategy, key audit risks and the proposed audit fees for 2018/19.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 BDO's audit plan for 2018/19 will dictate what is reported to the Audit Committee as part of the audit process.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The audit plan will assess fundamental aspects of financial standing and performance management in Barnet that relate to the key theme of 'value for money' relating to the Council's corporate priorities.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 This report sets out the engagement timetable and framework for the assessment of the Council's financial reporting, management and standing, as well as value for money. The proposed fee for the audit of £130,919 will be paid out of Corporate Fees within Central Expenses.

5.3 Social Value

- 5.3.1 None in the context of this decision

5.4 Legal and Constitutional References

- 5.4.1 The Council's Constitution (Article 7) sets out the terms of reference for Committees. The responsibilities for the Audit Committee include providing "independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process".

5.5 Risk Management

- 5.5.1 The audit plan for the year ended 31 March 2019 highlights the Council's statutory responsibility in respect of producing the financial statements. Without appropriate closedown processes in place and references to local government financial reporting policies there is a risk that statutory deadlines may be missed or accounting policies misinterpreted without the appropriate reference to the external auditor's views or

concerns. The consequence of this could result in a qualified audit opinion on the financial statements or a qualified value for money opinion.

5.6 Equalities and Diversity

5.6.1 The audit planning report 2018/19 has the potential to cover the inspection and assessment of all services within the authority that, in turn, impacts on all members of the community.

5.7 Corporate Parenting

5.7.1 None in the context of this decision

5.8 Consultation and Engagement

5.8.1 None

5.9 Insight

5.9.1 None in the context of this decision.

6. BACKGROUND INFORMATION

6.1 The purpose of the audit planning report is to highlight the key elements of BDO's 2018/19 external audit strategy for the Council. It is compiled based on their audit risk assessment and discussions of key risks with management. It is reported to the Audit Committee as those charged with governance for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

6.2 The audit plan for the year ended 31 March 2019 sets out the planned BDO external audit team and the engagement timetable.

6.3 **The audit plan for 2018/19 details the audit scope and objectives in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO. This will enable BDO to form an opinion on whether:**

6.3.1 The financial statements give a true and fair view of the financial position of the group and authority and their expenditure and income for the period in question.

6.3.2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

6.3.3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).

6.3.4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.

6.3.5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

6.4 The audit planning report 2018/19 also sets out group and component materiality and clearly trivial threshold levels:

6.4.1 The concept of materiality will be applied by BDO in both planning and performing the audit, and in evaluating the effect of misstatements.

6.4.2 The estimated group and component materiality levels for the 2018/19 audit are as follows:

- Group - £16.2m
- Significant components (Council) - £16.2m
- Non-significant components (The Barnet Group Limited and its subsidiaries) - £5.0m

6.4.3 Planning materiality levels are estimated at this stage and will be confirmed by BDO when the draft financial statements are received for audit.

6.4.4 The clearly trivial threshold for all group and components detailed in section 6.4.2, is set at £0.243m, which is based on 1.5% of the materiality level of the Group (£16.2m). Any uncorrected misstatements above this level identified through the audit process are required to be reported to the Audit Committee.

6.5 The audit planning report 2018/19 also details the overall audit strategy.

6.5.1 This encompasses a risk based audit of the group and authority's financial statements and the authority's use of resources based on BDO's understanding of the group, authority and other component entities' businesses and specific risks and of the adequacy of the accounting systems and records as the basis for preparation of the financial statements.

6.5.2 For the use of resources audit, BDO consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

6.5.3 The approach to the audit of components of the group financial statements is designed to ensure that BDO obtain the requisite level of assurance across the whole group:

6.6 For the financial statements audit, under International Standard on Auditing 315 'Identifying and assessing the risks of material misstatement through understanding the entity and its environment', BDO are required to consider significant risks that require special audit attention.

6.6.1 The key audit risks that have been identified in relation to the audit of the financial statements are as follows, with further details and the planned audit approach set out on pages 10-14 of the BDO audit plan:

Significant risk:

- Management override of controls
- Revenue (and expenditure) recognition
- Property, plant and equipment and investment property valuations
- Pension liability valuation
- Presentation of the Comprehensive Income and Expenditure Statement (CIES)

Normal risk:

- Allowances for non-collection of receivables
- Consideration of related party transactions
- Classification and measurement of financial instruments
- Revenue from contracts with customers
- Accounting for renegotiated Brent Cross lease

6.6.2 The audit will also consider throughout the process the possibility of material misstatement due to fraud or error.

6.6.3 The key audit risks that have been identified in relation to the use of resources audit are as follows, with further details and the planned audit approach set out on pages 15-16 of the BDO audit plan:

Significant risk:

- Recognition of revenue and capital grants that are subject to performance conditions.
- Material misstatements

Normal risk:

- Asset valuation
- NET Pension liability

6.7 Under Auditing and Ethical Standards, BDO are required as auditors to confirm their independence to the Audit Committee. BDO have not identified any potential threats to their independence as auditors.

6.8 The audit plan confirms the proposed Code audit fee of £130,919 (2017/18: £197,262) and a separate fee of £19,000 (2017/18: £21,617) for the certification of the housing benefit subsidy return. Separate fees are charged for the audit of the teachers' pensions return and pooling of capital receipts return which are outside of the main audit engagement.