

East Hertfordshire District Council

Audit planning report

Year ended 31 March 2018

13 March 2018



Private and Confidential

13 March 2018

East Hertfordshire District Council
Wallfields
Pegs Lane
SG13 8EQ

Dear Performance, Audit and Governance Scrutiny Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Performance, Audit and Governance Scrutiny Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Performance, Audit and Governance Scrutiny Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 13 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson.
For and on behalf of Ernst & Young LLP
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Contents



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). 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 **Performance, Audit and Governance Scrutiny Committee, other members of the Authority and Senior management of East Hertfordshire District Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Performance, Audit and Governance Scrutiny Committee, and management of 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 **Performance, Audit and Governance Scrutiny Committee, other members of the Authority and Senior management of East Hertfordshire District 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.



01

Overview of our 2017/18 audit
strategy





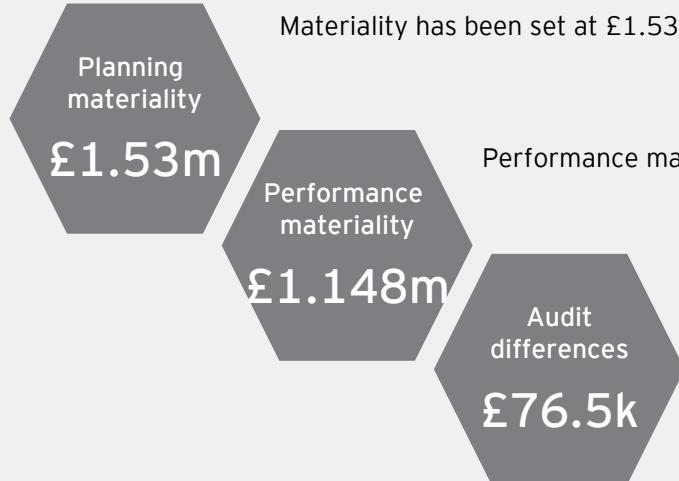
Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Performance, Audit and Governance Scrutiny Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Significant Risk/Fraud	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Investment Property Valuations (Old River Lane)	Significant risk	No change in risk or focus	Old River Lane site was purchased by the Council during 2015 and classified as an investment asset in the Council's 2015/16 and 2016/17 accounts. The Council is continuing to develop its proposal for the use of this site which will eventually result in changes in its classification. Due to the material nature of the asset, small changes in assumptions when valuing it could have a material impact on the Council's financial statements.
Pension Valuation and Disclosures	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.
Property, Plant and Equipment Valuations	Inherent risk	No change in risk or focus	Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy

Materiality



Materiality has been set at £1.53 million, which represents 2% of the prior years gross expenditure.

Performance materiality has been set at £1.148 million. This represents 75% of planning materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £76,534. Other misstatements identified will be communicated to the extent that they merit the attention of the Performance, Audit and Governance Scrutiny Committee.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.



Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of East Hertfordshire District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our 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 the Council's Whole of Government Accounts return.

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

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; and,
- Management's views on all of the above.

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

Audit team changes

Pamela Hillie has taken over from Natalie Clark as the engagement manager for the audit for 2017/18. Pamela has a number of years experience auditing the public sector and her current client portfolio includes a range of local government organisations, including a number of district councils.



02 Audit risks





Our response to significant risks

Misstatements due to fraud or error	What is the risk?	What will we do?
	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For the Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud in revenue recognition.</p>	<p>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, including testing of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.Assessing accounting estimates for evidence of management bias;Evaluating the business rationale for significant unusual transactions; andReviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised, should the final sum be material.

Our response to significant risks

Investment Property Valuation (Old River Lane)

What is the risk?

Old River Lane site was purchased by the Council during 2015 and classified as an investment asset in the Council's 2015/16 and 2016/17 accounts.

The Council is continuing to develop its proposal for the use of this site which will eventually result in changes in its classification. Due to the material nature of the asset, small changes in assumptions when valuing it could have a material impact on the Council's financial statements.

What will we do?

Our approach will focus on:

- Assessing the classification of the Old River Lane assets, the valuation basis that is assigned as a result and any material increases or impairments that arise during 2017/18;
- Assessing the work of the property valuers in respect of the Council's Investment property portfolio;
- Identifying the key assumptions and valuation methodology for the Old River Lane assets and understanding the rationale, involving EY Estates as necessary; and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements.

Other areas of audit focus

We have identified other areas of the audit, 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.

What is the risk/area of focus?	What will we do?
<p>Property, Plant and Equipment Valuations</p> <p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none">Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;Sample testing key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metres);Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;Reviewing assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;Considering changes to useful economic lives as a result of the most recent valuation; andTesting accounting entries have been correctly processed in the financial statements.
<p>Pension Valuation and Disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none">Liaising with the auditors of the Pension Fund, to obtain assurances over the information supplied to the actuary in relation to East Hertfordshire District Council;Assessing the conclusions drawn on the work of the actuary, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own pensions specialists; andReviewing and testing the accounting entries and disclosures made in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, 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.

What is the risk/area of focus?	What will we do?
<p>Valuation of property assets - Old River Lane</p> <p>Other Risk</p> <p>The Old River Lane site was purchased by the Council during 2015w and classified as an investment asset in both the 2015/16 and 2016/17 financial statements. The Council is continuing to develop its proposal and it is likely that this will ultimately result in a change in the classification and valuation of the asset. Due to the material nature of the asset, small changes in assumptions when valuing the asset could have material impacts on the councils financial statements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none">Assessing the classification of the Old River Lane site, the valuation basis that is assigned as a result, and any material increases or impairments that arise during 2017/18 .Assessing and placing reliance on the work of the property valuation specialists commissioned by the Council to value the Old River Lane site. We will also consult with EY Estates team where appropriate in relation to this valuation.Reviewing and testing the accounting entries and disclosures made within the Corporation's financial statements in relation to any revaluations or impairments.
<p>Business Rates Appeals Provision</p> <p>Other Risk</p> <p>The business rates appeals provision includes, not only claims up to 31 March 2018, but claims that relate to earlier periods and is subject to estimation.</p> <p>As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged. The Council may also find it difficult to obtain sufficient information to establish a reliable estimate.</p> <p>Due to the level of estimation and the complexity of this provision we have included it as an area of risk for this year.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none">Reviewing the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37;Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; andReviewing the completeness of the provision.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
<p>Earlier deadline for production of the financial statements</p> <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.</p> <p>These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, and the provision of late working papers.</p> <p>As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.</p> <p>To mitigate this risk we will require:</p> <ul style="list-style-type: none">• good quality draft financial statements and supporting working papers by the agreed deadline;• appropriate Council staff to be available throughout the agreed audit period; and• complete and prompt responses to audit questions. <p>If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.</p> <p>Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Work with the Council to engage early to facilitate early substantive testing where appropriate.▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.▶ Work with the Council to implement EY Client Portal, this will:<ul style="list-style-type: none">▶ Streamline our audit requests through a reduction of emails and improved means of communication;▶ Provide on-demand visibility into the status of audit requests and the overall audit status;▶ Reduce risk of duplicate requests; and▶ Provide better security of sensitive data.▶ Agree the team and timing of each element of our work with you.▶ Agree the supporting working papers that we require to complete our audit.



03

Value for Money Risks



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

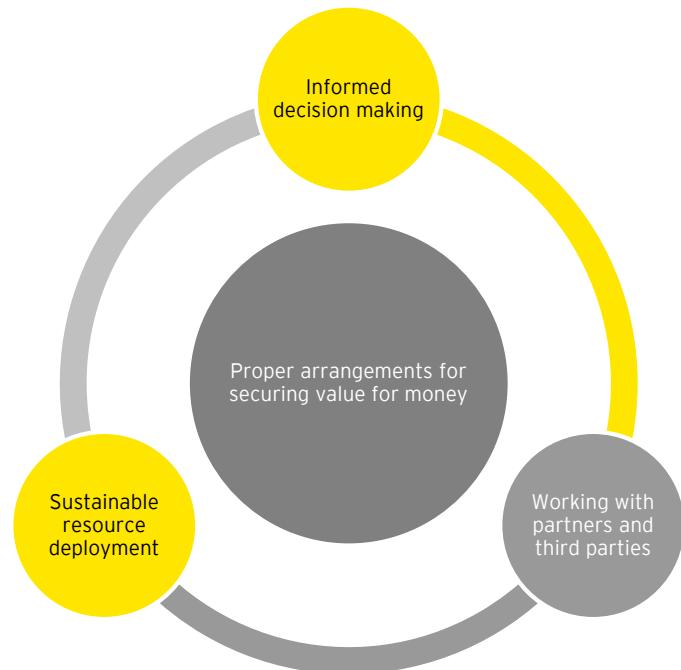
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following pages which we view as relevant to our value for money conclusion.





Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Development of Old River Lane, housing company and Leisure Strategy</p> <p>The Council purchased Old River Lane for investment purposes during 2015/16. Plans for the site are continuing to be developed, and decisions that the Council is making now, will impact on the revenue and capital costs relating to the project, in current as well as future years.</p> <p>In addition to the Old River Lane development, the Council is also looking to establish a housing company and develop a longer term leisure strategy.</p> <p>All of these developments are significant projects for the Council which will require significant financial investment. They all present challenges for the Council in terms of governance, financial and risk management as well as partnership working. Given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, the effectiveness of the governance and risk management arrangements related to these key decisions are crucial.</p>	<p>Take informed decisions</p> <p>Deploying resources in a sustainable manner; and</p> <p>Partnership working</p>	<p>Our approach will focus on the effectiveness of the Council's arrangements to exercise oversight of these significant decisions and resulting significant expenditure commitments. This will include:</p> <ul style="list-style-type: none">• The quality of the information provided to Members and Officers when taking decisions in relation to the projects;• The nature consideration of advice taken by the Council, including legal and financial advice;• The extent to which the Council has identified, considered, and mitigated the risks around the projects;• The extent to which the financial implications of the project are reflected within the Council's Medium Term Financial Plan;• The extent to which the Council has considered alternative funding options; and• The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs.• Understanding how the Council is working with other bodies in relation to the projects. <p>We anticipate that our work in this area will involve additional audit work that is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2017/18 audit fee. We will discuss the resulting fee implications with the Council as part of the detailed scoping the work we need to undertake to support our value for money conclusion. Any variation to our fee needs to be approved by PSAA Ltd</p>



04 Audit materiality



Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.530 million. This represents 2% of the Council's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Performance, Audit and Governance Scrutiny Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.148m which represents 75% of planning materiality. This is consistent with the percentage used in 2016/17.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Performance, Audit and Governance Scrutiny committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality of £1,000 for the following: Remuneration disclosures (including severance payments, exit packages and termination benefits), related party transactions, and members' allowances. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this



05 Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular 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, Audit and Governance Scrutiny Committee.

Internal audit:

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit planning, where they raise issues that could have an impact on the financial statements.

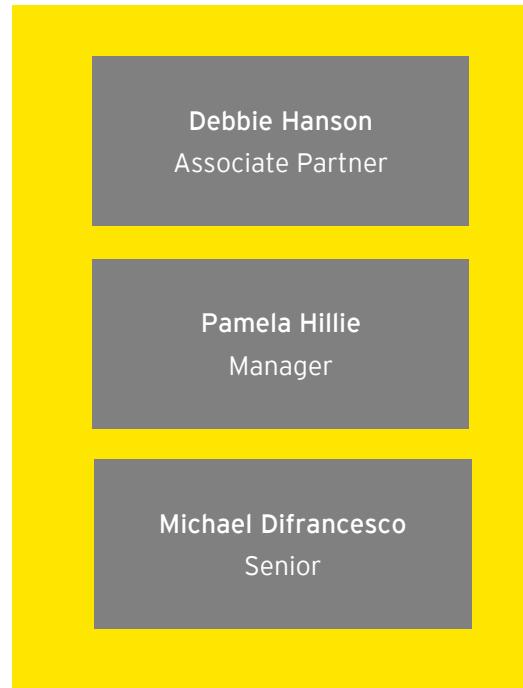
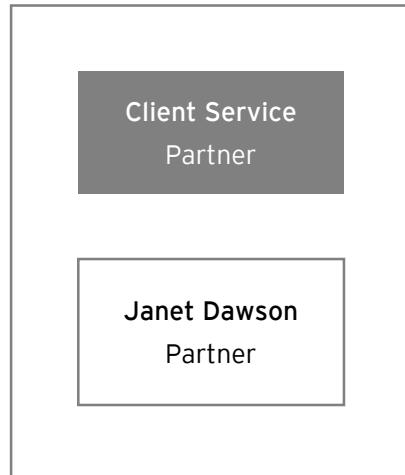


06 Audit team



Audit team

Audit team



Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Council's valuers (internal valuer) EY Real Estates Team (if required)
Pensions disclosure	Council's Actuary (Hymans Robertson) EY Pensions Advisory Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline



Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

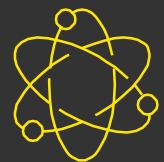
From time to time matters may arise that require immediate communication with the Performance, Audit and Scrutiny Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December/January		
Interim audit testing	February/March	Performance, Audit and Governance Scrutiny Committee (13 March)	Audit Planning Report
Year End Audit/Audit Completion procedures	July	Performance, Audit and Governance Scrutiny Committee July (Date not yet confirmed)	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August	Performance, Audit and Governance Scrutiny Committee October (Date not yet confirmed)	Annual Audit Letter



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 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 integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires 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.▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	<ul style="list-style-type: none">▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;▶ Written confirmation that all covered persons are independent;▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; 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. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

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.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%. We have adopted the following safeguards as a result. No additional safeguards are required.

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 part 4.

There are no 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 the Group. 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 communications

Other threats

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

There are no other threats at the date of this report.

EY Transparency Report 2017

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 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09 Appendices





Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Audit - Code work	52,331	52,331	52,331*
Certification of Claims and Returns	8,316**	8,316	4,759**
Non-audit work	0	0	0
Total fees	60,647	60,647	58,286

* We have proposed a scale fee variation for 2016/17 to reflect the additional work required to complete the audit. This has not yet been agreed with the Council or PSAA. We will therefore report the final position on the 2016/17 fee in our audit results report for 2017/18.

** The certification fee for 2016/17 was reduced from the scale fee set of £5,955 to reflect the fact that the Council undertook the initial testing for the first time in 2016/17. Assuming this arrangement continues in 2017/18 we would propose a reduction in the final fee for 2017/18. We will confirm this once we have completed the claim certification work.

The agreed fee presented for 2017/18 is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has 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 the Council in advance.

As noted earlier in this report we anticipate seeking a scale fee variation in relation to the risks we have identified in relation to our value for money conclusion.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

 Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Required communications	 What is reported?	 Our Reporting to you
		 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - March 2018
Significant findings from the audit	<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	Audit results report - July 2018

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none">Whether the events or conditions constitute a material uncertaintyWhether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statementsThe adequacy of related disclosures in the financial statements	Audit results report - July 2018
Misstatements	<ul style="list-style-type: none">Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulationThe effect of uncorrected misstatements related to prior periodsA request that any uncorrected misstatement be correctedCorrected misstatements that are significantMaterial misstatements corrected by management	Audit results report - July 2018
Fraud	<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 entityAny fraud that we have identified or information we have obtained that indicates that a fraud may existA discussion of any other matters related to fraud	Audit results report - July 2018
Related parties	<ul style="list-style-type: none">Significant matters arising during the audit in connection with the entity's related parties including, when applicable:Non-disclosure by managementInappropriate authorisation and approval of transactionsDisagreement over disclosuresNon-compliance with laws and regulationsDifficulty in identifying the party that ultimately controls the entity	Audit results report - July 2018



Appendix B

Required communications with the Audit Committee (continued)

Required communications	 What is reported?	Our Reporting to you	
		 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <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	Audit Planning Report - March 2018	Audit Results Report - July 0218
External confirmations	<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	Audit results report - July 2018	
Consideration of laws and regulations	<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	Audit results report - July 2018	
Internal controls	<ul style="list-style-type: none">▶ Significant deficiencies in internal controls identified during the audit	Management letter - October 2018	Audit results report - July 2018
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - July 2018	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2018	

 Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
Auditors report	<ul style="list-style-type: none">▶ Key audit matters that we will include in our auditor's report▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report -July 2018
Fee Reporting	<ul style="list-style-type: none">▶ Breakdown of fee information when the audit plan is agreed▶ Breakdown of fee information at the completion of the audit▶ Any non-audit work	Audit planning report - March 2018 Audit results report - July 2018
Certification work	Summary of certification work undertaken	Certification report - December 2018



Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council's to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



Appendix C

Additional audit information (continued)

Purpose and evaluation of 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 economic decisions of 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.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Entity's financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

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.