

A background image showing a meeting in progress. Several people are seated around a white table, looking at and pointing to documents. One person in the foreground is wearing a yellow shirt and a watch. Another person's hand is visible pointing at a document. A smartphone is lying on the table. The overall atmosphere is professional and collaborative.

East Hertfordshire District Council

Audit Plan

Year ended 31 March 2019

27 February 2019



Performance, Audit and Governance Scrutiny Committee
East Hertfordshire District Council
Wallfields
Pegs Lane
Hertford
SG13 8EQ

27 February 2019

Dear Performance, Audit and Governance Scrutiny Committee Members

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 2018/19 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 at the Performance, Audit and Governance Scrutiny Committee meeting on 11 March 2019, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel
Associate Partner
For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" 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 and 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 East Hertfordshire District 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 Performance, Audit and Governance Scrutiny Committee and 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 2018/19 audit strategy



Overview of our 2018/19 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.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	Significant Risk/Fraud	New area of focus	<p>The Council is under pressure to achieve its budget and maintain reserve balances above the minimum approved levels. One area management may override controls to help meet these challenges is how and what it accounts for expenditure.</p> <p>We consider this risk applies to capitalisation of revenue expenditure. Management may understate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.</p>
New General Ledger System	Significant risk	New area of focus	<p>The Council has implemented a new general ledger system during the year. The new Advanced E5 ledger replaced the Civica Financial system on 1 April 2018.</p> <p>The general ledger system is the key financial system used by the Council. The system processes and maintains records relating to income and expenditure transactions, records balances held by the Council and is used to prepare the financial statements.</p> <p>Any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.</p> <p>Our response to this risk will require additional auditor input and therefore an additional audit fee. We will agree with the Chief Finance Officer the proposed scope of our work and associated additional fee.</p>

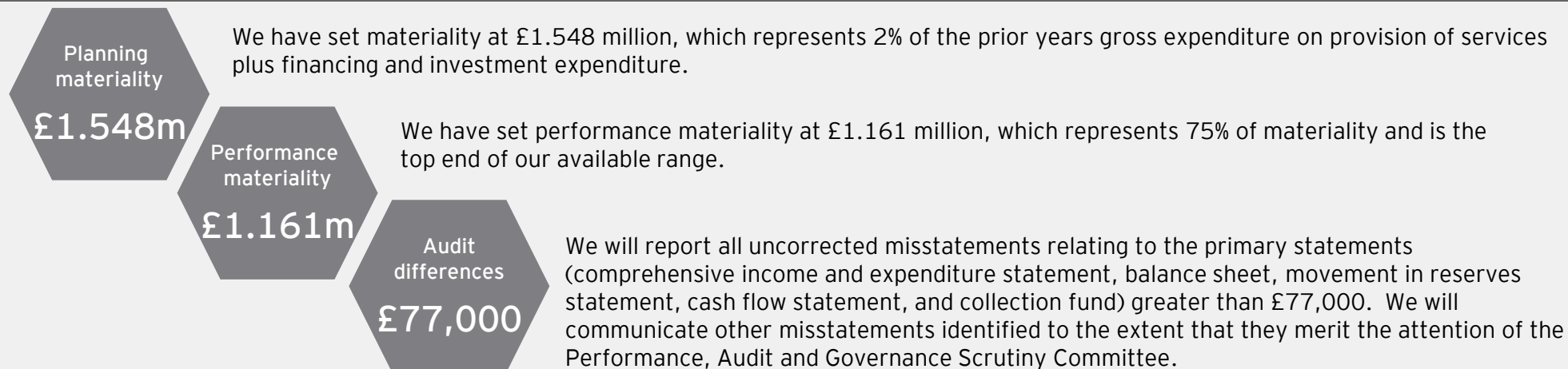
Overview of our 2018/19 audit strategy

Audit risks and areas of focus (continued)

Risk / area of focus	Risk identified	Change from PY	Details
Property, Plant and Equipment Valuations	Inherent risk	No change in risk or focus	<p>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.</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 internal 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>
Pension Valuation and Disclosures	Inherent risk	No change in risk or focus	<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 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.</p> <p>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>
Business Rates Appeals Provision	Inherent risk	No change in risk or focus	<p>The business rates appeals provision includes, not only claims up to 31 March 2019, 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, size of the balance and the complexity of this provision we consider this to be a higher inherent risk.</p>
New Accounting Standards	Inherent risk	New area of focus	<p>For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.</p>

Overview of our 2018/19 audit strategy

Materiality



We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2018/19 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 2019 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

Suresh Patel has taken over from Debbie Hanson as the Associate Partner for the audit. Suresh has significant experience in the government and public sector and is the signing partner for several other councils including some in Hertfordshire, Cambridgeshire and London.

Dan Cooke has taken over from Pamela Hillie as the engagement manager for the audit. Dan has over 12 years experience auditing in the public sector and his current client portfolio includes a range of local government organisations, including a number of district councils.



02

Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following page.

What will we do?

- ▶ 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 and other adjustments in the preparation of the financial statements.

To address the residual risk of management override we perform specific procedures which include:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- ▶ Assessing key accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure*

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

In 2017/18 the Council incurred £2.389 million capital expenditure and plans to incur £6.578 million in 2018/19.

What will we do?

Our approach will focus on:

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Our response to significant risks (continued)

New General Ledger System

Financial statement impact

We have identified a risk of income, expenditure and balance sheet misstatements that could affect the statement of accounts.

We consider the risk applies to transactions processed and maintained within the general ledger system and could result in a misstatement of the comprehensive income and expenditure statement and the balance sheet.

What is the risk?

The Council implemented a new general ledger system during the period. The new Advanced E5 ledger replaced the Civica Financial system on 1 April 2018.

The general ledger system is the key financial system used by the Council. The system processes and maintains records relating to income and expenditure transactions, records balances held by the Council and is used to prepare the financial statements.

Any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.

What will we do?

Our approach will focus on:

- Reviewing the migration of data from the old system onto the new system, relying on work completed by internal audit where possible;
- Using IT specialists to perform detailed testing over the new system, and perform a high level overview of the controls and data migration;
- Reviewing the reproduction of the 2017/18 financial statements using the new system to ensure that the structure of the financial mapping is consistent with the old system; and
- Perform year-on-year analytical procedures to determine whether any accounts or balances have unexpectedly moved by a material amount.

Audit risks

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.

What is the risk/area of focus?	What will we do?
<p>Valuation of other Land and Buildings and Investment Properties</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Consider the work performed by the Council's internal valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;▶ Sample test key asset information used by the internal valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);▶ Consider 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 IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;▶ Consider changes to useful economic lives as a result of the most recent valuation; and▶ Test accounting entries have been correctly processed in the financial statements.
What is the risk/area of focus?	What will we do?
<p>Business Rates Appeals Provision</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, size of the balance and the complexity of this provision we have included it as an area of risk for this year.</p>	<p>We will:</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; and▶ Reviewing the completeness of the provision.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation & Pensions Assets</p> <p>The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £29.390 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> <p>We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to East Hertfordshire District Council; ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 considering fund assets and the Council's liability.
<p>New accounting standards</p> <p>The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:</p> <ul style="list-style-type: none"> ▶ IFRS 9 - Financial instruments ▶ IFRS 15 - Revenue from contracts ▶ IFRS 16 - Leases <p>There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Engage early with the Council on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Council's proposed accounting and disclosures; and ▶ If required, undertake additional audit procedures on the Council's assessments we will discuss with the Chief Financial Officer the impact on our audit fee.



03

Value for Money Risks





Value for Money

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 2018/19 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:

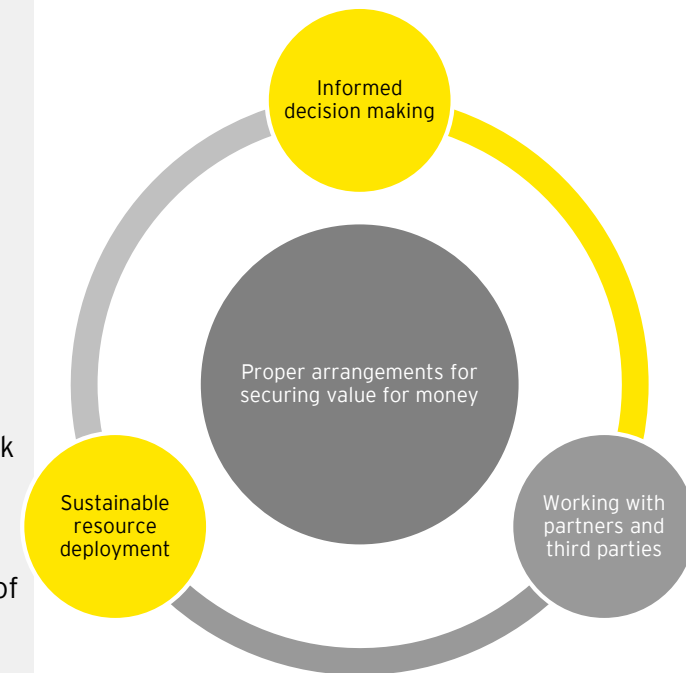
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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 risk 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</p> <p>The Council continues to develop the site purchased at Old River Lane. An OJEU tender process has been completed to determine the preferred developer of the site. Decisions made by the Council will impact on the current and future revenue and capital costs of the project.</p> <p>The forecast capital cost of £30 million is significant for the Council. The project presents 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 this project are crucial.</p>	<ul style="list-style-type: none">• Take informed decisions	<p>Our approach will focus on the effectiveness of the Council's arrangements to exercise oversight of the Old River Lane project. This will include reviewing:</p> <ul style="list-style-type: none">• The quality of the information provided to Members and Officers when taking decisions in relation to the project;• 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 project;• The extent to which the Council has considered alternative funding options;• The governance arrangements and judgement made during the tender process; and• The adequacy of the processes established by the Council to review and monitor delivery of the any agreed outputs. <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 2018/19 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 will need to be approved by PSAA Ltd.</p>



04

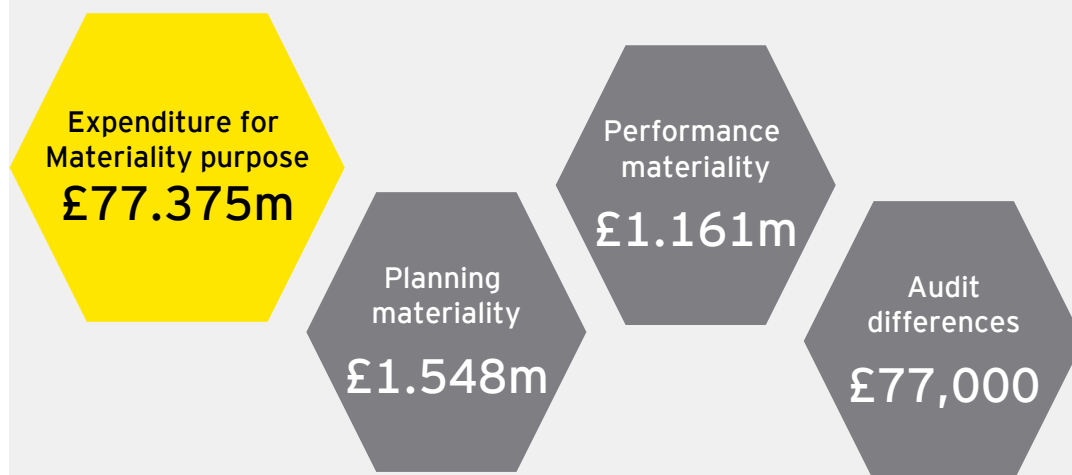
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1.548 million. This represents 2% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure and other operating expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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 £1.161 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in the prior year and any significant changes when determining the percentage of performance materiality. We have used the higher end of the range.

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 and collection fund 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 lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which 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).

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 2018/19 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2018/19, 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 regularly meet with the Head of Internal Audit, and 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 plan, where they raise issues that could have an impact on the financial statements.



06

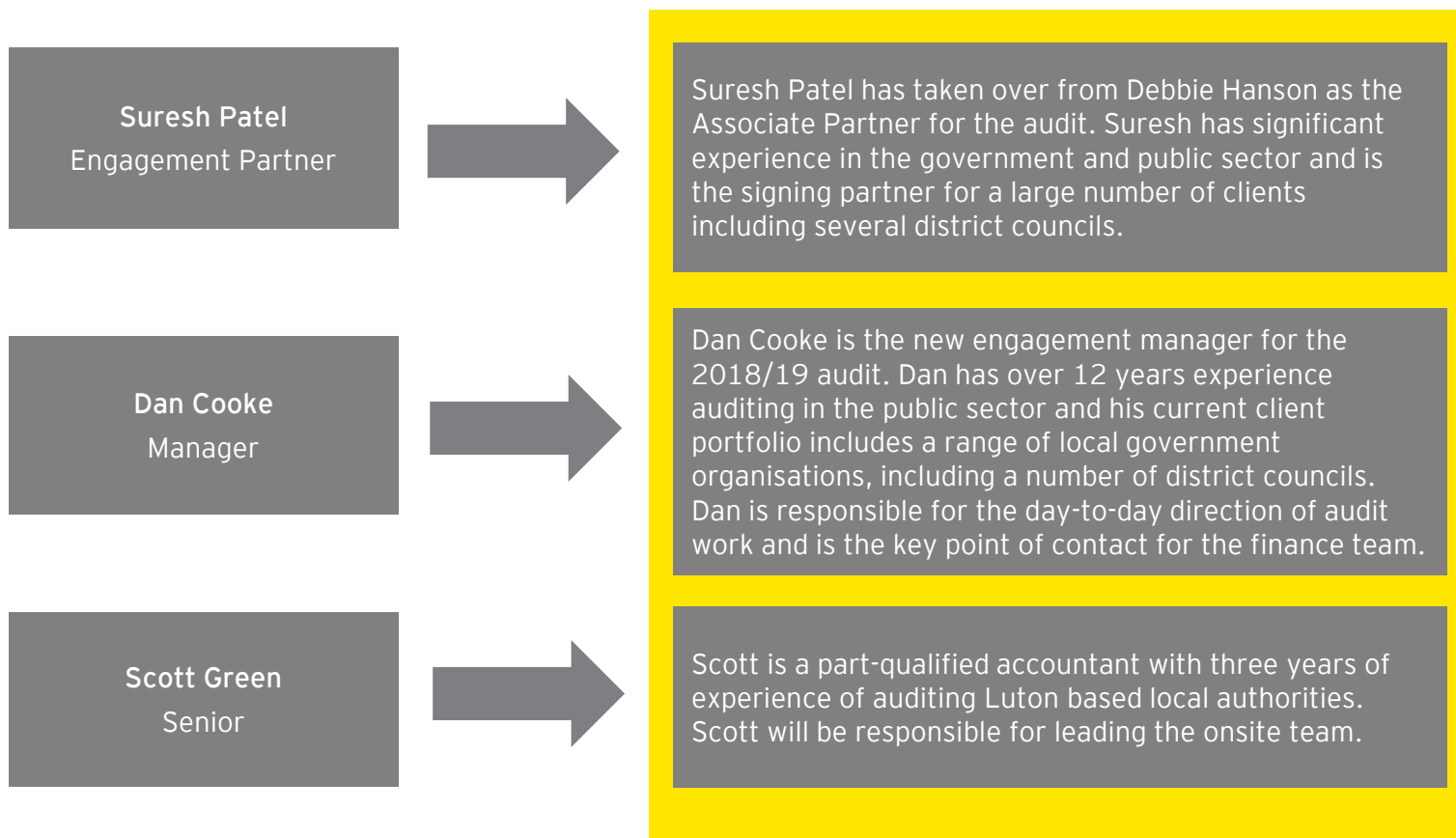
Audit team



Audit team

Audit team structure:

We have put together an audit team, based from our Luton office, with significant experience of auditing unitary authorities dealing with the same issues as the Council. They are committed to working effectively with the finance team to deliver a smooth and effective audit, adding value wherever possible.



Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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 provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Council's valuer (internal valuer) EY Real Estates Team (if required)
Pensions Disclosure	Council's Actuary (Hymans Robertson) EY Pensions Advisory Team
Business Rates Appeals Provision	Council's specialist (Analyse Local)

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



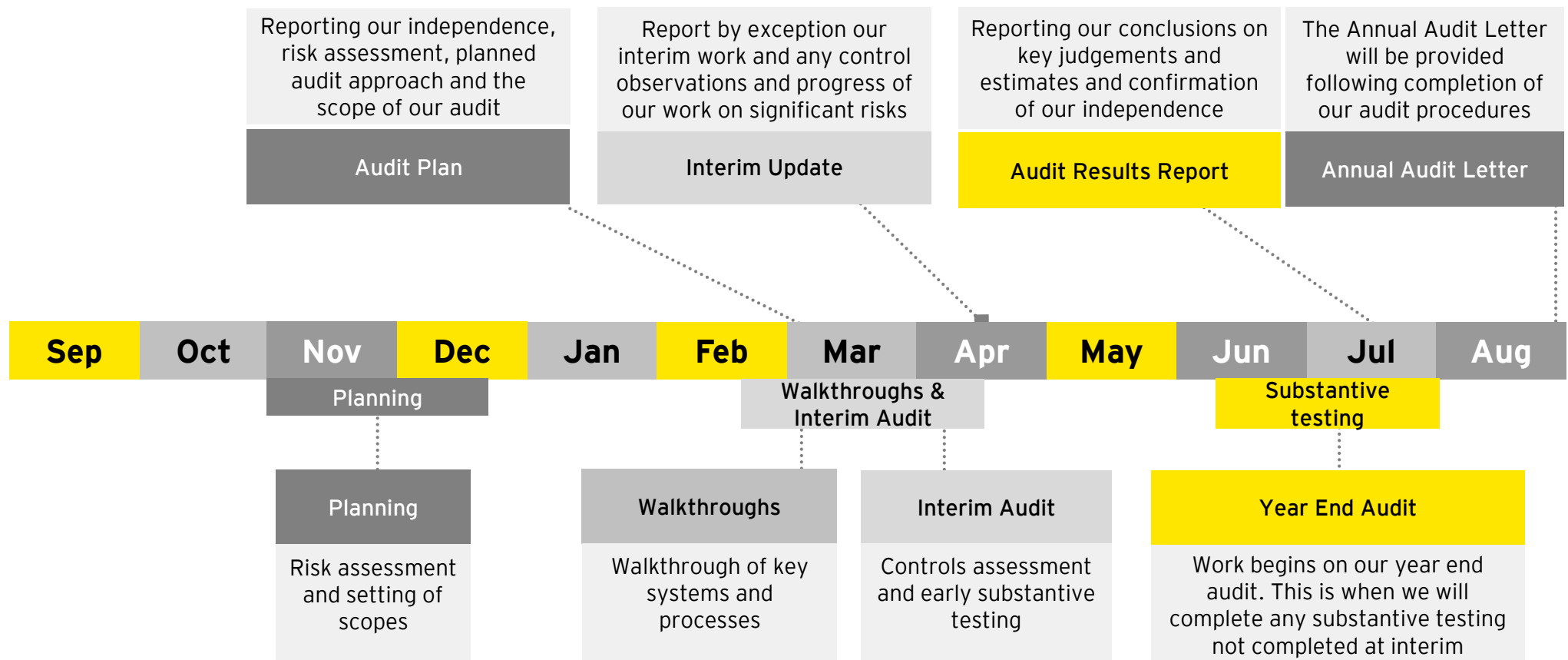


Audit timeline

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 2018/19. From time to time matters may arise that require immediate communication with the Performance, Audit and Governance Scrutiny Committee and we will discuss them with the Performance, Audit and Governance Scrutiny Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





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. 	<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 Suresh Patel, 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 Ethical Standards 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, there are no non-audit services and therefore we do not need any additional safeguards.

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.

Relationships, services and related threats and safeguards (continued)

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. 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 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 2018

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 2018 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



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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. The reduction in fees from 2017/18 reflect the first year of a new 5 year PSAA contract.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total Fee - Code work	40,295*	40,295	52,331**
Certification of Claims and Returns***	TBD	TBD	8,316
Total fees	TBD	TBD	60,647

All fees exclude VAT

* We will share with the Chief Financial Officer the scope of the additional work, and associated additional fee, we need to undertake to address the significant risk associated with the new General Ledger and the VFM significant risk.

** We proposed a scale fee variation for 2017/18 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 2017/18 fee in our audit results report for 2018/19.

** For 2018/19 the Council has to appoint their own reporting accountant for the housing benefit certification assurance work. We have submitted our proposal for this work and are awaiting a response from the Council on their decision.

The agreed fee presented 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 within this audit plan. Note that all additional audit fees must be independently approved by PSAA.

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

Appendix B



Required communications with the Performance, Audit and Governance Scrutiny Committee

We have detailed the communications that we must provide to the Performance, Audit and Governance Scrutiny Committee.

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Performance, Audit and Governance Scrutiny 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 Plan - March 2019
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 2019




Appendix B

Required communications with the Performance, Audit and Governance Scrutiny Committee (continued)

Required communications	 What is reported?	 When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - July 2019
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Performance, Audit and Governance Scrutiny Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - July 2019
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 management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - July 2019
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 Plan - March 2019; and Audit Results Report - July 2019



Appendix B

Required communications with the Performance, Audit and Governance Scrutiny Committee (continued)

Required communications	 What is reported?	 Our Reporting to you  When and where
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 2019
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 Performance, Audit and Governance Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Performance, Audit and Governance Scrutiny Committee may be aware of 	Audit Results Report - July 2019
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2019
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 2019
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 plan - March 2019 Audit Results Report - July 2019
Certification work	Summary of certification work undertaken, if applicable	Annual Certification report - January 2020

Appendix B

Required communications with the Performance, Audit and Governance Scrutiny Committee (continued)

Our Reporting to you		
Required communications	 What is reported?	 When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none">▶ Whether the events or conditions constitute a material uncertainty▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements▶ The adequacy of related disclosures in the financial statements	Audit Results Report - July 2019

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 to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Performance, Audit and Governance Scrutiny Committee reporting appropriately addresses matters communicated by us to the Performance, Audit and Governance Scrutiny Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

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 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.

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