Peterborough City Council

Year ending 31 March 2016

Audit Plan

March 2016

To be presented at Audit Committee on 29 June 2016

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Building a better
working world

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6 June 2016

Audit Committee
Peterborough City Council
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Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your new auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 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.

2015/16 will be our first year as your external auditor. We have worked through the transitional arrangements with our predecessors, PWC, including a review of their files. This plan therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 29 June 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson
Partner
For and behalf of Ernst & Young LLP
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Contents

1. Overview

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

- Our audit opinion on whether the financial statements of Peterborough City Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;

- Our conclusion on the Council arrangements to secure economy, efficiency and effectiveness; and

- Any additional specific sector requirements.

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.

Since our appointment as auditors of Peterborough City Council, we have completed a range of transition and planning activities including:

- Meetings with the Audit Committee and Senior Management.

- Review of strategic documentation, including the Council's financial plans and strategic risk register.

- Review of predecessor auditor's 2014/15 audit reports and working papers.

- Participation in an accounts closure workshop at the Council.

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.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our transition and initial planning activities.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date
Risk of management override	
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.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions ► Testing for capitalisation of revenue spend
Property, plant and equipment valuation	
Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet. Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Revaluations are carried out by the Council's appointed valuers. Valuations are based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.	We will obtain an understanding of and evaluate key controls over the valuation of PPE. Where asset valuations are undertaken in-year we will: ► agree the source data used by your valuer to supporting records; ► assess the work of your valuer; and ► agree the outputs to your fixed asset register and statements. Where the Council proposes significant changes to valuation bases we will evaluate the rationale. ► Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying value of these assets remain appropriate.

The Council' previous auditor raised two issues in their annual audit letter relating to PPE valuations, re:

- **Lack of reconciliation of Gross Internal Area (GIA)** documentation. However, their work in this area concluded that the amounts on the valuation certificates were appropriate and no adjustments were required to the accounts as a result of this matter.
- **Accounting for schools' non-current assets.** Your previous auditor identified matters in relation to 5 schools with a total netbook value of £9.5m. It is the Authority's view that legal ownership should reside with, and is in the process of transferring to, the governing bodies of the schools, who have substantive control over these assets. Therefore, the Authority does not have control over the assets and has not included these assets in the balance sheet. The Council's previous auditor was satisfied with the conclusions made by the Council not to recognise these assets but requested disclosure of this matter, including the net book value of the non-current assets of £9.5m, in a note to the accounts.

We will:

- agree the source data used by your valuer to supporting records;
- assess the work of your valuer; and
- agree the outputs to your fixed asset register and statements.

We have discussed the latest position with the finance team, and understand that these schools are still in the process of transferring to the governing bodies.

It is likely that we will take the same view as your previous auditor and would require the Council to make a similar disclosure this year, if the position has not been resolved by the date of our audit opinion.

Private Finance Initiative

The Council recognises on its Balance Sheet a PFI liability for a PFI agreement with IIC BY Education (Peterborough Schools) Limited which the Council signed in 2006 for the delivery of new and improved facilities and services for three secondary schools in Peterborough. The contractor will maintain these three schools and provide them with a range of other services such as caretaking, cleaning and catering for 30 years. One of the three schools has transferred to Academy status therefore the associated assets are not recognised on the Council's Balance Sheet. The value of the two schools which are recognised on the Council's Balance Sheet is £25.1m

The PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

The accounting entries are based on a complex range of assumptions via a PFI accounting model.

We will:

- Obtain an understanding of and evaluate key controls over the valuation of the PFI liability.
- Ensure the PFI model has been brought forward correctly from the previous year, consider engaging relevant experts to review the model against an EY model to ensure the client model is still working as expected.
- Ensure the PFI accounting model has been updated for any service or other agreed variations.
- Agree outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure.

Minimum Revenue Provision (MRP) methodology change

In common with many other local authority bodies in 2015/16 Peterborough City Council has reviewed the basis on which they calculate the required “prudent” MRP amount.. The change is proposed to assist with funding the budget gap which has been identified by the Council.

The Council is currently applying MRP at a rate of 4% which is the previously accepted methodology for the capital expenditure incurred prior to 1 April 2008 which was funded by borrowing, and for supported borrowing undertaken from 2000809 to 2010/11. The key element of the Council’s revised approach is to link the MRP calculation to the weighted average life of these assets. In addition, the annuity basis is to be applied to unsupported borrowing post 2008.

The MRP adjustment is material and we consider that there are risks around:

- Whether the weighted average life of the assets has been correctly calculated;
- The treatment of Adjustment A ; and
- Whether the revised calculation of MRP is correct.

The Council has prepared a briefing note on its proposed treatment and we held an initial meeting with the finance team to discuss this and share our initial observations. We agreed that the finance team would carry out further work on the briefing note and supporting documents and we are now carrying out a more detailed review of the proposal.

Our approach will focus on:

- reviewing the approach put forward by the Council and conclude whether we are satisfied that the approach is reasonable and meets statutory guidance from DCLG;
- discussing our findings from this review with the finance team;
- agreeing the any recalculation of the adjustment as necessary and confirming that it has been applied correctly.

Assessment of the Group boundary

Peterborough City Council has a number of joint arrangements which may necessitate the preparation of group accounts.

The Council will need to identify and consider all of its relationships with its subsidiaries and other partners and assess the nature of these arrangements to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council’s Financial Statements. Group accounts have not previously been prepared by the Council.

The review will need to consider the new accounting practices introduced in the 2014/15 CIPFA Code of Practice.

There is a risk that associated group boundary changes may go undetected, and that the required disclosures are not made in accordance with the new standards.

Our approach will focus on:

- assessing where overall control lies with regard to the operation and delivery of services of the potential group bodies; and
- ensuring that appropriate consolidation procedures are applied to those bodies that lie within the group boundary.

Other financial statement risks

New financial system

On 1 November 2015 the Council changed its financial system from Oracle to Agresso. The transactions and balances from the first seven months of the year were transferred from Oracle to Agresso in a data migration exercise, with the remaining five months transactions being processed in the new system.

The risk is that the data has not been transferred correctly and the year end accounts could be misstated.

Our approach will focus on:

- reviewing Internal Audit work on the data migration process
- reviewing the checks and reconciliations performed by the Finance department and IT department,
- reperforming any of these checks as necessary, and
- carrying out any additional testing necessary.

Better Care Fund accounting

The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From 1 April 2015 the BCF has been set up as a pooled budget between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.

In addition, the Council is party to a number of other pooled budget arrangements. Proper disclosure of the nature of all of these arrangements is important together with the accounting and disclosure implications arising from them in the Council's accounts

We will engage with management to ensure that their plans for financial statements production are clear. We will look specifically at proposed accounting treatments for the Better Care Fund and other pooled budgets, and reviewing the disclosures made under IFRS11 and 12 relating to the arrangements.

We will keep our approach under review, pending further guidance from CIPFA, NHSE the National Audit Office and PSAA.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ► Identifying fraud risks during the planning stages;
- ► Enquiry of management about risks of fraud and the controls 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 any identified risks of fraud, and,
- ► Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

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.

For 2015/16, 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 which 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 to date 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 following significant VFM risks which we view as relevant to our value for money conclusion. Should we identify any additional significant value for money risks during the course of our audit, we will update management and the Audit Committee.

Significant value for money risks	Our audit approach
Budget pressures	
Councils are funded by grants from central government and locally raised revenue from council tax and business rates or from fees, charges, or other revenue generating activities. Since 2010/11 funding for Councils from central government has reduced by 37 per cent in real terms, and further reductions for the period 2016-17 to 2019-20 are likely. The Council is taking action to address longer term financial resilience issues identified in the Medium Term Financial Strategy. The budget for 2016/17 is balanced; however, there are still some gaps to cover in subsequent years: £4 million in 2017/18, £24 million in 2018/19 and £31 million in 2019/20. Achieving the 2016/17 budget will be reliant on savings plans of £12m being realised. In addition, £5 million savings are planned in each year as a result of changing the methodology of calculating Minimum Revenue Provision (MRP) which is currently subject to audit.	Our approach will focus on: ► Financial reporting including achievement of financial targets. ► Delivery of the Council’s 2015/16 savings plans and linkages to delivery of longer-term transformational change; ► The Council’s 2016/17 financial plan; ► The Council’s longer-term financial strategy in the light of the local and wider financial pressures in the local economy; and ► Review of the Council’s proposal to change its MRP methodology.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- Financial statements
- 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 report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- Examine and report on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period;

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.

4.2 Audit process overview

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. This will enable us to more efficiently update our understanding of your systems and carry out the walkthrough of those systems as required under auditing standards. Our intention is to carry out a fully substantive audit in 2015-16 rather than rely on the operation of controls as we believe this to be a more efficient approach however:

IT systems and applications: we will consider the general IT controls built in to the Council's core IT applications, and form a general understanding of the IT control environment

Entity level controls: we will maximise efficiency by seeking to rely on entity level controls and processes, such as budget setting and monitoring process.

Where we note any weaknesses in controls as part of our work, we will bring these to the attention of the finance team and will report them in communications to the Audit Committee if necessary.

Liaising with Internal Audit

A key part of understanding and monitoring of the control environment is our ongoing liaison with Internal Audit. We will develop a strong working relationship with Internal Audit. We will discuss and review Internal Audit's annual plans and reports to inform where specific reviews can assist us in our controls and Value for Money Conclusion 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 we note issues that could have an impact on the year-end financial statements

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
- Give greater likelihood of identifying errors than random sampling techniques.

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 will provide input for the current year based on our initial planning activities are:

Area	Specialists
Pensions	EY Pensions team/ Third party specialists
Valuations	EY Valuations team/ Third party specialists
PFI	EY PFI specialist
MRP	EY Financial Accounting Advisory Services (FAAS) 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 environment 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 expert to establish whether the source date 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.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must 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;
- 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
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO
- Examining and reporting on the consistency of any consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £9,682,000 based on 2% of gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £250,000 to you.

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.

4.5 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 indicative fee scale for the audit of Peterborough City Council is £108,533.

At this stage we identify that there will be additional fee for our work on reviewing the MRP methodology change, any audit work relating to group accounts if these are required, and any significant audit work arising from the data migration exercise.

4.6 Your audit team

The engagement team is led by Janet Dawson, who has significant experience of local government audits. Janet is supported by Kay McClennon, Audit Manager, who is responsible for the day-to-day direction of audit work. Kay is the key point of contact for the Head of Corporate Finance.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	**December 2015 - February 2016**	**June 2016**	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	**January/February 2016**	**June 2016**	Audit Plan
Testing routine processes and controls	**January/February 2016**	**June 2016**	Progress Report
Year-end audit	**June/July 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report
Completion of audit	**September 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**October 2016**		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between 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.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, 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 we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services;

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 are disclosed, analysed in appropriate categories.

5.2 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 any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; 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 the Council.

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 the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, we have completed no non-audit work.

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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other 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 other 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 your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions 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.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

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 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 June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Scale fee 2015/16 £	Scale fee 2014/15 £
Opinion Audit and VFM Conclusion	108,533	144,710
Total Audit Fee – Code work	**108,533**	**144,710**
Certification of claims and returns [1]	13,619	18,740

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- We can rely on the work of internal audit as planned;
- 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.

At this stage we identify that there will be additional fee for our work on reviewing the MRP methodology change, any audit work relating to group accounts if these are required, and any significant audit work arising from the data migration exercise.

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

[1] Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
Significant findings from the audit ► 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	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
Fraud ► Enquiries of the Audit 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	► Report to those charged with governance
Related parties 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	► Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
Consideration of laws and regulations ► 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	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► 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 ► Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► 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	► Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	► Report to those charged with governance
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Report to those charged with governance ► Annual Audit Letter if considered necessary
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ► Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ► Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Plan
Opening Balances ► Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
Certification work ► Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

Appendix C Detailed scopes

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

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk-based, and therefore the data below on coverage of gross revenue expenditure and total assets is provided for your information only.

Group audit scope	Number of locations	% of GRE	% of Total Assets
Still to be determined if necessary			

- **Full scope**: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).

- **Specific scope**: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.

- **Limited Scope**: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

- **Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Our involvement can be summarised as follows:

- Discussion with the component team concerning:

EY | Assurance | Tax | Transactions | Advisory

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