

AUDIT COMMITTEE

27 JUNE 2013

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 EXTERNAL AUDITOR'S AUDIT PLAN 2012/13 AND AUDIT AND CERTIFICATION FEE LETTER 2013/14

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present for consideration and agreement the External Auditor's Audit Plan for 2012/13 and Audit and Certification Fee letter for 2013/14.

EXECUTIVE SUMMARY

The External Auditor's Audit Plan for the year ending 31 March 2013, which is attached, sets out the planned audit work in respect of the 2012/13 Financial Statements and Value for Money conclusion. The plan is developed taking into account a number of factors such as strategic, operational and financial risk which provide a reporting focus on the areas that matter and more likely be relevant to the Council.

Attached to the Audit Plan is a separate Audit and Certification Fee letter for 2013/14 which continues to reflect a significant reduction in the External Auditor's annual fee.

RECOMMENDATIONS

That the Audit Committee:

- a) **Considers and agrees the External Auditor's Audit Plan for 2012/13 and the Audit and Certification Fee Letter 2013/14.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Delivery against priorities, service improvement and governance arrangements are improved through external challenge such as from external audit inspections and reviews.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The audit fee for 2012/13 – The proposed fee of **£101,877** (**£77,377** 'base' fee plus certification fee of **£24,500**) is within the overall external audit fee budget with a significant saving of **£91,000** achieved in 2012/13 as reported as part of the outturn report to Cabinet at its 14 June 2013 meeting.

The audit fee for 2013/14 - The proposed fee of **£96,477** is within the overall fee budget of **£120,840** which takes into account the level of savings realised in 2012/13. However as

highlighted in the attached letter, an extra fee may need to be charged if additional work such as that associated with certification of claims is required to be undertaken by the External Auditor which is therefore reflected in the budget.

The overall position will be subject to on-going review during the year as part of the budget monitoring and budget setting processes.

No allowance is made within the overall fee for additional work that may be required such as that associated with additional requirements placed on the Council or unforeseen circumstances, which would be the subject of further reports where necessary.

Risk

Not supporting and responding practically and timely to External Audit activity may have an impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

LEGAL

The Council is required to ensure there are adequate internal audit / internal control arrangements in place.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications.

PART 3 – SUPPORTING INFORMATION

AUDIT PLAN 2012/13

Shortly after the end of each financial year the Council prepares in accordance with proper practices a Statement of Accounts as statutorily required which are then subject to external audit before final publication by the end of September.

The Audit Plan issued by the External Auditor highlights at a summary level, aspects of the work they plan on undertaking including the value for money conclusion. Their plan for the 2012/13 financial year is attached.

The plan covers a number of issues ranging from the assessment of risk to the Auditor's processes and strategy including key milestones.

The outcome of the External Auditor's work will be set out in the Annual Governance Report that will be presented to the Audit Committee at their September 2013 meeting followed by the Annual Audit Letter provided to the Council by the end of October 2013.

It is also worth highlighting that there are a number of key issues that the External Auditor is required to provide to the Audit Committee. These are set out on **Appendix B** of the Attached Audit Plan.

The plan also sets out the outcome from the work undertaken by the External Auditor in response to concerns raised by a Member in July 2012. Further details are set out on pages 3 to 4 of the attached Audit Plan with the primary outcome being a recommendation that the Leader, working with all members and the Council's senior management team, continue to embed a culture of strong ethical governance at all levels. This issue has been captured as an action for 2013/14, including the implementation of effective revised arrangements for Member conduct and complaints, within the broader Annual Governance Statement that is set out as a separate item elsewhere on the agenda. Subject to the approval of the Audit Committee, the Annual Governance Statement is signed by the Leader and the Chief Executive that demonstrates an organisational commitment to this identified governance issue.

ANNUAL AUDIT FEE LETTER 2013/14

Details around the proposed fee for 2013/14 are highlighted within the Finance, Other Resources and Risk section of the report above.

Similarly to the plan for 2012/13 set out above, the actual Audit Plan for 2013/14 will be issued to the Council by March next year, following which it will be reported to the Audit Committee.

BACKGROUND PAPERS FOR THE DECISION

None

ATTACHMENTS

The External Auditor's Audit Plan 2012/13

The External Auditor's Fee Letter 2013/14



Tendring District Council

Year ending 31 March 2013

Audit Plan

March 2013

 **ERNST & YOUNG**

Audit Committee
Tendring District Council
Town Hall
Station Road
Clacton-on-Sea
Essex CO15 1SE

25 April 2013

Dear Members

Audit Plan

We are pleased to attach our Audit Plan for Tendring District Council which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. We also want to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks 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 report with you on 27 June 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
For and behalf of Ernst & Young LLP
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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of Tendring District Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- ▶ A statutory 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 your Whole of Government Accounts return.

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.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the council.

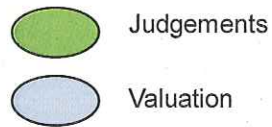
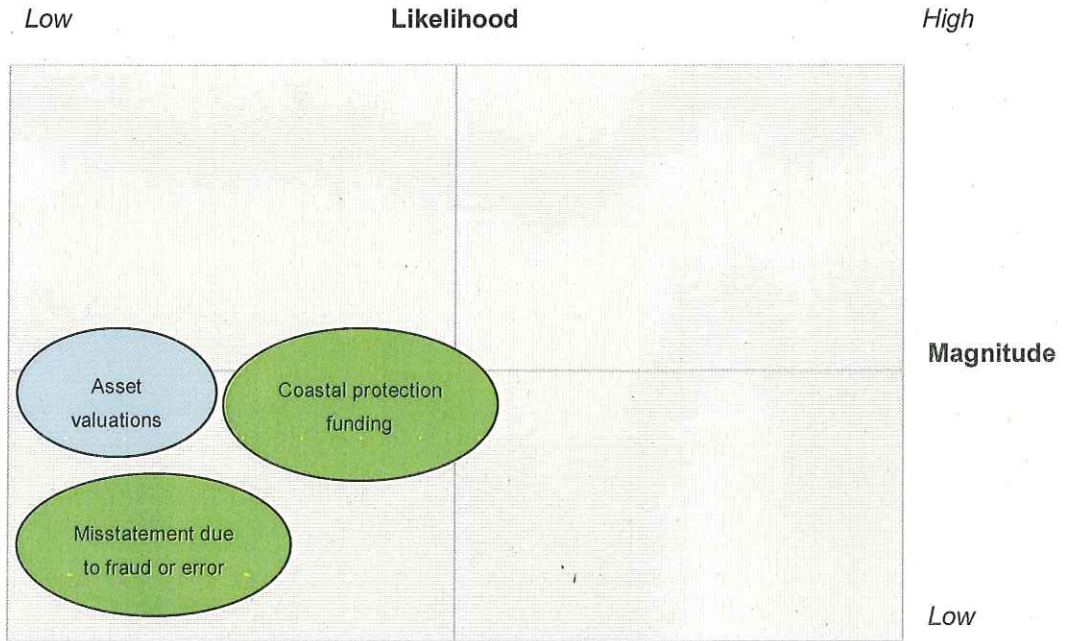
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4, and summarised below.

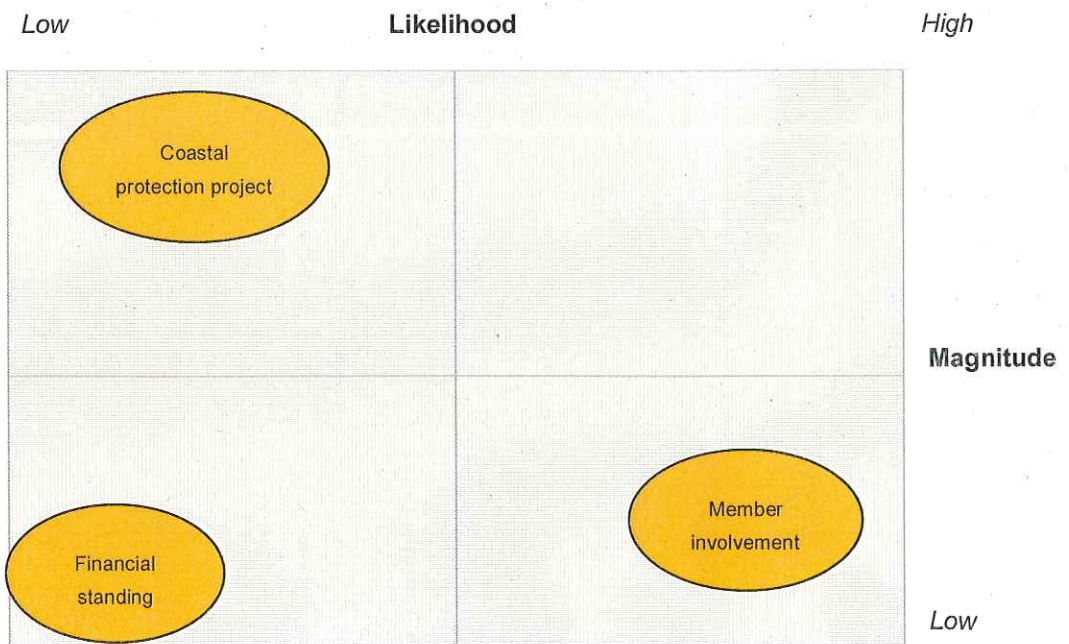
There are no significant changes to the Council's accounting requirements for 2012/13. We are not aware of any major structural change that would impact on the accounts.

The grids below show the overall assessment of these risks in terms of their likelihood of occurrence in 2012/13 as well as the perceived magnitude of the risk to our opinion and value for money conclusion.

Opinion risks



Value for money risks



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 2013.

Our process and strategy

Financial statement audit

- ▶ We set our materiality based on the Council's level of gross expenditure. We also consider a number of factors including levels of reserves, prior year errors, public profile and sensitivities. Our audit is designed to identify errors above materiality.
- ▶ We aim to rely on the Council's internal controls wherever possible. We identify the controls we consider important and seek to place reliance on internal audit testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
- ▶ We seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit regarding arrangements for our review and re-performance of their work.
- ▶ Although this is our first year as your Appointed Auditor, our team includes a number of auditors who have worked on your audit for some years with the Audit Commission.
- ▶ There has been no change to the scope of our audit compared to previous audits as the Audit Commission.

Arrangements for securing economy, efficiency and effectiveness

We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

We have considered the risks relevant to our value for money conclusion and have identified a number of areas that we will consider in detail as part of our work. These are summarised below:

- ▶ The Council is undertaking a major coastal protection project. We will monitor the arrangements for managing this project to ensure they remain sound.
- ▶ As with all Councils, the collection fund arrangements have changed as a result of the Localism Act and resulting changes to council tax support and non domestic rates. We will review the Council's revised budgeting arrangements and the consideration of self-sufficiency to ensure they appropriately reflect these changes.

In planning our audit, we are aware that during the 2011/2012 audit, the previous auditor considered concerns raised by a Councillor in July 2012 on the legality and value for money of a £5,800 small schemes application by the former Leader of the Council. Concerns were raised that the former Leader of the Council sought to gain personally and had improper influence in an application for a proposed hydrographic study in his area. Following investigations and careful consideration, the previous auditor wrote to the Councillor concerned in August 2012 and concluded that on the basis of the information and responses available at that point, the Council followed properly its policies and procedures in approving the former Leader's small scheme allowance application. The previous auditor was not able to identify any improper influence or expenditure in the scheme and did not believe there was an unlawful item of account or significant failings in governance and propriety.

Since the closure of the 2011/2012 audit, we have received additional information in support of the Councillor's concerns on the small scheme application. Whilst we have no remit to reopen a closed audit, we have taken this additional information into consideration to determine whether we propose to look into this matter further as part of our 2012/2013 audit. After careful consideration of the additional information received, we are not minded to undertake any further investigations into this matter. We remain satisfied that there is not an unlawful item of account or significant failings in governance and propriety.

However, in light of the fact that these concerns have been raised since July 2012 with the previous auditor and now ourselves, and that the matter is not yet considered closed by the Councillors concerned, we do have some observations on the Council's actions and process in handling this matter. We do note that the small scheme application process no longer operates but we feel the handling of this matter highlights some underlying messages on the Council's ethical governance, in particular the behaviour and conduct of members. In particular, it is of some concern that:

- Any concerns regarding the legality and value of money of this application could not have been resolved much sooner and satisfactorily between the Councillors concerned, or in gaining the necessary assurances from officers in how they were following proper procedure, standing orders and the Council's constitution.
- The concerns were not addressed at an early stage by either Councillors or officers to address specifically the concerns about how this application may be perceived by members of the public and interested stakeholders.
- The time and resources spent by officers in handling concerns of Councillors and in responding to audit enquiries is now disproportionate to the issue itself.
- Senior officers of the Council have spent a lot of time and incurred considerable cost providing assurances and answering questions and concerns on this matter and other similar areas. Should this continue, and apply to any similar situations in the future, this could risk officers becoming disproportionately distracted from delivering the strategic priorities of the Council and securing its medium to long term financial resilience.

The Council needs to continue to develop a culture of openness, transparency, trust and confidence between members and in member and officer relationships. Reflecting honestly and openly on handling of recent complaints and concerns, the Council's members should positively identify the actions it needs to take to embed a culture of strong ethical and corporate governance at all levels in the Council. We therefore strongly recommend the Leader of the Council, working with all members and the Council's senior management team, continue to take these actions forward.

We will maintain a watching brief and will review the Council's action planning. Should we have any further concerns on the Council's approach to governance and ethical standards during the course of our audit, we will consider a more detailed review of the Council's arrangements in this area before we reach our VFM conclusion.

We will keep our risk assessment under review taking into account:

- ▶ our discussions with the Council;
- ▶ our review of reports and minutes;
- ▶ the results of internal audit work;
- ▶ our opinion and certification work;
- ▶ review of the Annual Governance Statement; and

- ▶ the work of other regulators.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing the Council identified through our knowledge of the entity's operations and discussion with members and officers.

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

Significant risks (including fraud risks)	Our audit approach
No significant risks identified	
Other financial statement risks	
Coastal protection funding	
The Council intends to work with a range of partners on a coastal protection scheme in excess of £30 million. The Council identified some funding towards this which may need to be accounted for in 2012/13 and recognised in the Comprehensive Income and Expenditure Statement (CIES) when appropriate.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Identifying funding received and stage of project. ▶ Ensuring significant funding is recognised in the CIES at the appropriate stage.
Asset valuation	
The Council considers the appropriateness of asset valuations each year. These are material estimated figures within the financial statements	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the information provided to the Valuer. ▶ Undertaking procedures to ensure we can rely on the Valuer as management's expert. ▶ Reviewing the figures provided by the Valuer to ensure they are reasonable.
Risk of misstatement due to fraud and error	
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place 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.	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. This would include review of areas where significant judgement is required, such as provisions and review of transactions before and after the year end to ensure they are accounted for in the correct financial period. ▶ Performing mandatory procedures regardless of specifically identified fraud risks. <p>We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.</p>

3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Tendring District Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Significant risks	Impacts arrangements for securing:	Our audit approach
Coastal protection project		
The Council is embarking on a major coastal protection project from East Clacton to Holland on Sea and is putting together funding from a range of sources.	Economy, efficiency and effectiveness	Our approach will focus on: <ul style="list-style-type: none"> ▶ Ensuring the Council's project management and procurement arrangements remain adequate and effective.
Other risks		
Austerity programme		
As with all Councils, the ongoing period of economic uncertainty and austerity increases the pressure on balancing budgets and maintaining an adequate level of reserves.	Financial resilience	Our approach will focus on: <ul style="list-style-type: none"> ▶ Ensuring the Council's medium term financial planning arrangements remain adequate.
Changes to arrangements for council tax support and business rates		
From April 2013, there will be changes to the arrangements for both Local council tax support and business rates. These changes represent a significant change for the Council and bring both financial and reputational risks and need to be reflected in the 2013/14 budget.	Financial resilience	Our approach will focus on: <ul style="list-style-type: none"> ▶ The process the Council has followed in setting its budget to take account of these changes and in considering self-sufficiency ▶ Reasonableness of significant assumptions, including those relating to bad debts and changes in income streams and how these have been built into its future financial projections.
Ethical governance		
Continue to develop a culture of openness, transparency, trust and confidence between members and in member and officer relationships. Members and officers need to work together to take these actions forward.	Economy, efficiency and effectiveness	Our approach will focus on: <ul style="list-style-type: none"> ▶ Monitoring the Council's work and review of the Council's action planning. If we conclude more detailed work is required in this area to allow us to issue our VFM conclusion we will discuss with the Chief Executive.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

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

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls for at least part of the year, both manual and IT:

- Accounts receivable (Agresso)
- Procure to pay (Agresso)
- Payroll (Teamspirit)
- Council tax (Northgate)
- Non domestic rates (Northgate)

- Housing benefits (Northgate)
- Housing rents (Northgate)

Fixed assets, loans, investments and cash balances will be tested substantively at year end. If control weaknesses are identified in other systems we may need to test substantively.

Analytics

We plan to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of journal entries and payroll. 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 Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our reports to those charged with governance, where issues are raised that could impact the year-end financial statements.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with Internal Audit and in April will commence our review and re-performance of their work on the systems detailed above.

Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgements made in the financial statements. Our plan currently includes the involvement of no specialists.

Other procedures

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

Mandatory procedures required by auditing standards on:

- ▶ 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 and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 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 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.

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.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Tendring District Council is £77,377.

Please see appendix A for more information on the fee.

4.5 Your audit team

The engagement team is led by Neil Harris, who has significant experience on the Tendring audit. Neil is supported by Wendy Borgartz who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the s151 Officer. Wendy has taken over from Carl Pettitt. Banita Ludhor will also be working on the Tendring audit, as last year.

4.6 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; and the deliverables we have agreed to provide to you through the audit committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Committee in September 2013. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	December/January		Audit Fee letter
Risk assessment and setting of scopes	February/April	Audit Committee	Audit Plan
Testing of routine processes and controls	April/June	Audit Committee	
Year-end audit	July – September	Audit Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate
Reporting	October		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 upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require 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. 	<ul style="list-style-type: none"> ▶ 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 Audit Commission's Standing Guidance 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.

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.

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 the principal threats, if any. However we have adopted the safeguards noted 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 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 and that are in compliance with the Audit Commission's Standing Guidance.

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 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 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 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.

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 Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

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 29 June 2012 and can be found here:

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

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £'000	Actual Fee 2011/12 (Audit Commission Audit Practice) £'000	Explanation of variance
Total Audit Fee – Code work	77,377	128,962	40% saving as a result of the Audit Commission Procurement Exercise
Certification of claims and returns*	24,500	52,126	Saving as a result of the Audit Commission Procurement Exercise and reduction in number of claims requiring certification.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of internal audit;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the audited body; and
- ▶ Effective control environment and system controls.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

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

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee of audited clients. 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 <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 ▶ Findings and issues regarding the opening balance on initial audits 	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ 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 <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the 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: <ul style="list-style-type: none"> ▶ 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 <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 	Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan Report to those charged with

Required communication	Reference
<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 <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material 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
<p>Significant deficiencies in internal controls identified during the audit</p>	Report to those charged with governance
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	Report to those charged with governance
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ 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 and Annual Audit Letter if considered necessary

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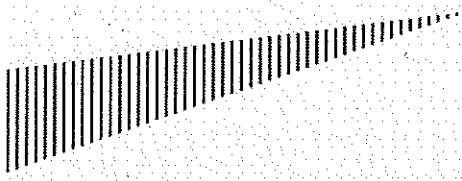
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Ian Davidson
Chief Executive
Tendring District Council
Town Hall
CLACTON-ON-SEA
Essex
CO15 1SE

23 April 2013

Ref: 2014 Tendring D C Fee letter

Direct line: 07967624335

Email: nharris2@uk.ey.com

Dear Ian

Tendring District Council Audit and certification fees 2013-14

We are writing to confirm the 2013-14 audit and certification work we propose to undertake. The 2013-14 fees reflect the risk-based approach promoted by the Audit Commission for audit and certification work.

Planned audit fee

The audit fee covers the work we perform to provide our:

- ▶ Opinion on the financial statements
- ▶ Value for money conclusion
- ▶ Report to the National Audit Office on the Whole of Government Accounts

The Audit Commission has set scales of fees as part of its five year procurement exercise. It has indicated scale fees are not liable to increase in that period unless there is a change in scope. For 2013-14 the Audit Commission has set a scale fee for each audited body. The scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements, Whole of Government Accounts and proper arrangements is not significantly different from that of the prior year
- ▶ Reliance can be placed on the work of internal audit to the maximum extent possible under auditing standards
- ▶ The financial statements will be available in line with the agreed timetable
- ▶ Working papers and records provided in support of the financial statements are of a good quality and are provided in line with agreed timetable
- ▶ Prompt responses are provided to draft audit reports

Meeting these assumptions will help ensure the delivery of an audit at the audit scale fee.

We have set the planned audit fee at the scale fee level which assumes the overall level of risk is not significantly different from that of 2012-13. The 2012-13 audit is in progress. We will update our risk assessment and undertake more detailed planning for the 2013-14 audit after we complete the 2012-13 audit.

Where the Department for Work and Pensions raises queries on the certified 2012-13 housing and council tax benefit claim further work and extra fee will be required.

Certification fee

The Audit Commission has set a composite indicative fee for certification work for each audited body. The indicative fee is based on actual 2011-12 certification fees adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2013-14 relates to work on grant claims and returns for the year ended 31 March 2014. We have set the certification fee at the composite indicative fee level which assumes the same level of work on claims and returns as 2011-12. We will update our risk assessment after we complete 2012-13 certification work and to reflect further changes in the Audit Commission's certification arrangements.

Summary of fees

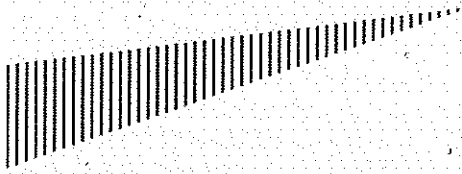
	Planned fee 2013-14 £	Planned fee 2012-13 £	Actual fee 2011-12 £
Code audit fee	77,377	77,377	128,962
Certification fee	19,100	24,500	39,881

The planned audit and certification fees will be billed in quarterly instalments of £24,119.

Any additional work we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Audit plan

We will issue our 2013-14 audit plan for the audit of the financial statements, Whole of Government Accounts and proper arrangements by March 2014. This will detail the financial statement and value for money conclusion risks identified, planned audit procedures to respond to those risks, and any changes in fee. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.



Audit team

The key members of the audit team for 2013-14 are:

Neil Harris
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Tel: 07966 215329

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully

Neil Harris
Director
Ernst & Young LLP
United Kingdom

cc. Karen Neath
Richard Barrett