

AUDIT COMMITTEE

20 MARCH 2014

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.3 EXTERNAL AUDITOR'S AUDIT PLAN 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 2013/14.

EXECUTIVE SUMMARY

The External Auditor's Audit Plan for the year ending 31 March 2014, which is attached, sets out the planned audit work in respect of the 2013/14 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.

RECOMMENDATIONS

That the Audit Committee:

- a) Considers and agrees the External Auditor's Audit Plan for 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

Appendix A of the Plan sets out a breakdown of fees.

The audit fee for 2012/13 – The proposed fee of **£101,877** (**£77,377** 'base' fee plus certification fee of **£24,500**) along with the proposed additional fee of £4,496 (that is still subject to Audit Commission approval) can be met from the Council's overall external audit fee budget.

The audit fee for 2013/14 - The proposed fee of **£96,477** is within the overall fee budget of **£96,840**. However as highlighted in the attached document, extra fees may need to be charged if certain circumstances arise which may require the identification of additional funding from elsewhere within the overall budgets to meet such costs.

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 2013/14

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 2013/14 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. Key risks such as the localising of business rates, the Local Council tax Support Scheme and the Clacton to Holland coast protection project have been highlighted. These are risks that are being actively managed by the Council.

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 2014 meeting followed by the Annual Audit Letter provided to the Council by the end of October 2014.

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.

BACKGROUND PAPERS FOR THE DECISION

None

ATTACHMENTS

The External Auditor's Audit Plan 2013/14

Tendring District Council

Year ending 31 March 2014

Audit Plan

March 2014



Building a better
working world

DELIBERATELY LEFT BLANK FOR PRINTING PURPOSES



Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Tel: + 44 1582 643000
Fax: + 44 1582 643001
ey.com



INVESTOR IN PEOPLE

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

6 March 2014

Ref: NH/TDC/2013-14/AuditPlan
Direct line: 01223 394459
Email: nharris2@uk.ey.com

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 2014 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, but also 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 at 20 March 2014 Audit Committee 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
Enc

DELIBERATELY LEFT BLANK FOR PRINTING PURPOSES

Contents

1. Overview.....	2
2. Financial statement risks	3
3. Economy, efficiency and effectiveness	5
4. Our audit process and strategy.....	7
5. Independence	12
Appendix A Fees.....	15
Appendix B UK required communications with those charged with governance.....	16

In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - 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, you may take the issue up with your usual partner or director contact. 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. We can provide further information on how you may contact our professional institute.

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 2014 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.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Tendring District 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
<p>Business rates appeals provision</p> <p>The new arrangements for the retention of business rates came into effect on 1 April 2013. From this date, the Council will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts that were paid to Central Government in 2012/13 and previous years. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Council's may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing the Councils provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37; and ▶ ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.
<p>Collection Fund disclosures and accounting for business rates and council tax benefit</p> <p>The new arrangements for the retention of business rates and local council tax schemes came into effect on 1 April 2013. The accounting and disclosure requirements for the collection fund are not yet clear and this therefore presents a risk in terms of the financial statements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing the detailed accounting for business rates and council tax benefit to ensure the Council's financial statements are materially accurate and compliant with the CIPFA Code of practice.
<p>Risk of misstatement due to fraud and error</p> <p>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.</p> <p>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>	<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; and ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For district council's the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ 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; ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

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 Tendring District Council to secure economy, efficiency and effectiveness in the use of resources.

We have undertaken a high-level summary of our risk assessment and have identified one significant risk.

Area of focus	Our audit approach
<p>Coastal protection project</p> <p>The Council has obtained funding for a major £36 million coastal protection project from Clacton Pier to Holland Haven. The Council is currently tendering for a range of services. Value for money may not arise where robust governance arrangements to manage the project are not in place.</p> <p>The scale of the project presents a local risk to value for money and requires detailed local risk-based work to form a view on Tendring's arrangements to secure economy, efficiency and effectiveness in its use of resources. We will discuss a variation to the Audit Commission's fee scale for 2013/14 with the Chief Executive and the Finance and Procurement Manager.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the Council's arrangements for the procurement, contract and risk management of the project. ▶ Reviewing key documents and processes as they arise to provide a review on the Council's arrangements at key project milestones.

We have also identified the following areas that we will focus on as part of our assessment.

Area of focus	Our audit approach
<p>Pressures from economic downturn</p> <p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Comprehensive Spending Review will continue to impact on the Council's budget and medium term financial planning during current and forthcoming financial years</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> ▶ The adequacy of the Council's budget setting process. ▶ The robustness of any assumptions. ▶ The effective use of scenario planning to assist the budget setting process. ▶ The effectiveness of in year monitoring against the budget. ▶ The Council's approach to prioritising resources.

Localisation of business rates

From April 2013, the Council will be able to retain some of its income from local business rates rather than paying the full amount back to central government. This localisation of business rates will impact upon the Council's income levels.

Our approach will focus on:

- ▶ Whether outcomes of the new arrangements are in line with the Council's plan and the impact on the Council's Budget.

Approach to local council tax support

The Local Council Tax Support (LCTS) scheme took effect from April 2013. This required the Council to set locally appropriate levels of council tax support.

The move to LCTS represented a significant change for the Council and has both financial and reputational risks.

Our approach will focus on:

- ▶ The outcomes from the development and implementation of LCTS.
- ▶ How the Council's move to LCTS impacted on the budget setting process.

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 principle 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

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to continue to rely on controls assurance:

- Accounts receivable (Agresso);
- Accounts payable (Agresso);
- Payroll (Teamspirit);
- Council tax (Northgate);
- Non domestic rates (Northgate);
- Housing benefits (Northgate); and
- Housing rents (Northgate).

If we identify control weaknesses in these financial systems we may need to test substantively.

Property, plant and equipment, financial statement close processes including journals, investments, loans and cash balances will be tested substantively at year end.

Analytics

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

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the 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 detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

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 have commenced our review and re-performance of their work on the systems detailed above.

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by a small number of experts, including a professional valuer in relation to the valuation of property plant and equipment, and an actuary in relation to the Council's liability to the local government pension scheme administered by Essex County Council. We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of land and property values, and the work undertaken by the pension scheme actuary appointed by Essex County Council.

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and valuations.

Mandatory 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.

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 have not yet finalised our overall materiality, but this will be set in the range of between £1.15 million and £2.3 million for the Council's financial statements based on 1% - 2% of the 2012/13 gross operating expenditure respectively. We will communicate our final materiality levels to you and the Audit Committee at a future committee meeting.

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.

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.

4.5 Your audit team

The engagement team is led by Neil Harris, who has significant experience on Tendring District Council. Neil Harris is supported by Chris Hewitt who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Finance and Procurement Manager. Vicky Chong will supervise the on-site audit team, is the key point of contact for the finance team and is responsible for raising and discussing emerging issues with officers.

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 2014. 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, incorporating the outputs from the interim audit and our year-end procedures respectively where appropriate. From time to time matters may arise that require immediate communication with those charged with governance 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	Committee timetable	Deliverables
High level planning:	January - March		
Risk assessment and setting of scopes	January - March		
Testing of routine processes and controls	January - March	Audit Committee	Audit Plan
	June	Audit Committee	Interim results report (if appropriate)
Year-end audit including WGA	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	Audit Committee	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 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.

The table below sets out the other threats that exist as the date of this report.

Description	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
A former audit manager with both the Audit Commission and EY was employed by the Council as a senior finance manager in October 2013.	The newly appointed senior finance manager had previously worked with former Audit Commission and recent EY colleagues until this date.	From October 2013	In response to this change, and to ensure ongoing independence, the audit team below manager level has been replaced with staff who have not previously worked with the senior finance manager.

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 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13	Explanation of variance
Total Audit Fee – Code work	77,377	77,377	No variance year on year. However, we will discuss a variation to the Audit Commission's fee scale for 2013/14 for the proposed audit work covering the coastal protection project with the Chief Executive and the Finance and Procurement Manager.
Certification of claims and returns*	19,100	24,500	The 2013/14 planned fee is set by the Audit Commission based on the fee charged for 2011/12, adjusted to reflect the overall 40% reduction in fees and the reduction in the number of claims that require auditing. We are proposing an extra fee of £4,496 for changes in scope of our 2012/13 audit on the housing benefit and council tax benefit claim. This is still subject to Audit Commission approval, and is not reflected in the figure shown here.

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.
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year.
- ▶ No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based.
- ▶ Our accounts opinion and value for money conclusion being unqualified.
- ▶ Appropriate quality of documentation is provided by the audited body.
- ▶ Effective control environment.
- ▶ There are no questions asked or objections made by local government electors.

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, or equivalent, 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

Required communication	Reference
<p>External confirmations</p> <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
<p>Consideration of laws and regulations</p> <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 committee may be aware of 	Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <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 	Audit Plan Report to those charged with 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>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components 	Audit Plan

Required communication	Reference
<ul style="list-style-type: none"> ▶ 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 	
Opening Balances (initial audits)	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	
Certification work	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
<ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	
Fee Information	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan 	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the completion of the audit 	

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com