

## AUDIT COMMITTEE

19 MARCH 2015

### REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

#### A.3 EXTERNAL AUDITOR'S AUDIT PLAN 2014/15 (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 2014/15.

##### EXECUTIVE SUMMARY

The External Auditor's Audit Plan for the year ending 31 March 2015, which is attached, sets out the planned audit work in respect of the 2014/15 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 to be relevant to the Council.

##### RECOMMENDATIONS

**That the Audit Committee:**

- a) **Considers and agrees the External Auditor's Audit Plan for 2014/15.**

#### 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 proposed fee of **£97,367** (Including certification of claims and returns) is in excess of the budget which totals **£90,210**. However the budget reflects a rebate from the Audit Commission that is not included in the proposed fee and therefore the overall position for the year will be managed as part of the wider year end closedown 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 2014/15**

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 2014/15 financial year is attached.

The plan covers a number of issues ranging from processes and strategy to the assessment of financial statement risks. 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 again this year along with a new item relating to the Jaywick development project. 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 Audit Results Report that will be presented to the Audit Committee at their September 2015 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**

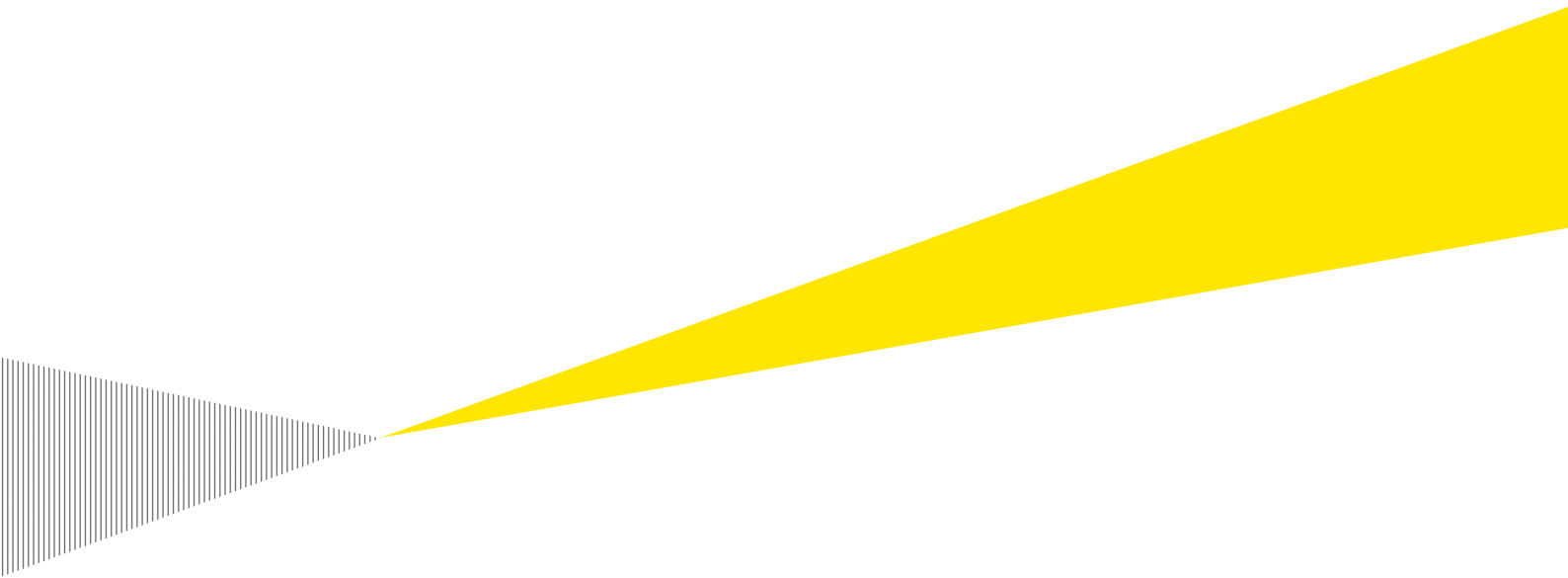
The External Auditor's Audit Plan 2014/15

# Tendring District Council

Year ending 31 March 2015

Audit Plan

09 March 2015



Building a better  
working world

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

9 March 2015

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 2014/15 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 Plan summarises our assessment of the key risks which drive the development of an effective audit for Tendring District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you at 19 March 2015 Audit Committee and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil A Harris  
Audit Director  
For and behalf of Ernst & Young LLP  
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# Contents

<b>1. Overview .....</b>	<b>1</b>
<b>2. The Local Audit and Accountability Act 2014.....</b>	<b>3</b>
<b>3. Financial statement risks .....</b>	<b>4</b>
<b>4. Economy, efficiency and effectiveness .....</b>	<b>6</b>
<b>5. Our audit process and strategy .....</b>	<b>9</b>
<b>6. Independence .....</b>	<b>13</b>
<b>Appendix A Fees .....</b>	<b>16</b>
<b>Appendix B UK required communications with those charged with governance.....</b>	<b>18</b>

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 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 2015 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 the Council's 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; and
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts 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.

As with all audited bodies, in respect of the financial statements we include a significant risk of management override of controls in the Audit Plan. We have changed the risk assessment as regards the arrangements for estimating the value of the provision of business rates appeals from a significant risk to an other risk.

For 2014/15, in respect of the Council's arrangements to secure economy, efficiency and effectiveness, we have classed at this stage the Council's arrangements for the development of Jaywick as a significant risk for the Council. We have assessed the coastal protection project as an other rather a significant risk to the Council. We have continued to assess financial resilience and the approach to council tax support as other risks.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

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 2015.



## **Our process and strategy**

### **Financial statement audit**

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We will undertake walk through tests of the key controls and undertake substantive tests of transactions and amounts. To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. As in prior years, we will review internal audit plans and the results of work undertaken.

### **Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money (VFM) conclusion for Tendring District Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ Securing financial resilience; and
- ▶ Challenging how the Council secures economy, efficiency and effectiveness.

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

There are is one new significant risk included within the 2014/15 Audit Plan relating to the Council's arrangements for the development of Jaywick and extra audit fees may arise from our work in reviewing the Council's arrangements in this area.

Further detail is included in section 4 of this Audit Plan.

## 2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

### 3. Financial Statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities 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"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for evidence of management bias;</li> <li>▶ Evaluating the business rationale for significant unusual transactions; and</li> <li>▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>
<b>Other financial statement risks</b>	
<b>Business rates appeals provision</b>	
<p>The business rates appeals provision includes not only claims up to 31 March 2015 but claims that relate to earlier periods and is subject to estimation.</p> <p>As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged.</p> <p>The Council 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"> <li>▶ Reviewing the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37;</li> <li>▶ Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and</li> <li>▶ Reviewing the completeness of the provision.</li> </ul>

#### Respective responsibilities in relation to fraud and error

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

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

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

- ▶ Identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

## 4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Tendring District Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. Financial resilience, and
2. Economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

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
<b>The Council's arrangements for the development of Jaywick</b>		
<p>The Council, in its community leadership and housing provider roles, is seeking to help start regeneration in Jaywick, by acquiring land from vendors.</p> <p>There are financial and value for money risks associated with this project.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the reports prepared by management to support the decision to acquire the land; and</li> <li>▶ Considering whether the reports adequately address the risks associated with the project to form the basis for decision making.</li> </ul>

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

<b>Coastal Protection Project</b>		
<p>Tendring has obtained funding for a major £36 million coastal protection project from Clacton Pier to Holland Haven.</p> <p>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 on-going monitoring during the lifetime of the project.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the findings of Internal Audit’s work in 2014/15 following the first phase of the project from Holland Haven to Fernwood Avenue; and</li> <li>▶ Considering responses to our recommendations made in May 2014, particularly concerning project management and funding arrangements.</li> </ul>
<b>Financial resilience</b>		
<p>To date Tendring has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, with the Council forecasting a cumulative budget gap of £5.3m in 2019/20, there remains significant financial pressure on the Council’s budget and Medium Term Financial Strategy during current and forthcoming financial years.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Assessing the financial resilience of the MTFs;</li> <li>▶ Reviewing the Council’s processes for delivering the identified savings plans for 2014/15; and</li> <li>▶ Considering the plans in place to identify the savings required to 2018/19 for which plans have yet to be developed.</li> </ul>
<b>Approach to local council tax support</b>		
<p>The Local Council Tax Support (LCTS) scheme took effect from April 2013. This required Tendring to set locally levels of council tax support.</p> <p>The move to LCTS represented a significant change for the Council and has both financial and reputational risks.</p> <p>In August 2014, the High Court ruled the residency criteria for LCTS operated by Sandwell Metropolitan Borough Council was unlawful. Tendring operated a similar scheme. The Council ceased its residency rule in 2014 and introduced a revised scheme for 2015/16. The changes may impact on collection rates for 2014/15 and 2015/16.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The arrangements for the revised scheme introduced in November 2014 for 2015/16; and</li> <li>▶ The impact for council tax collection rates for 2014/15 and 2015/16 as a result of the revised schemes and any appeals against the previous residency test.</li> </ul>

- ▶ We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

## 5. Our audit process and strategy

### 5.1 Objective and scope of our audit

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

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources.

to the extent required by the relevant legislation and the requirements of the Code.

We issue 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) on the Whole of Government Accounts return to the extent and in the form they require.

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider 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.
- ▶ 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.

### 5.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2014/15 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2014/15, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by internal audit as part of this element of our work.

#### Processes

We are not planning to rely on testing of key controls and will take a fully substantive approach to the audit as we believe this is the most efficient approach.



### **Analytics**

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

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

### **Internal audit**

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

### **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 investment property, 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 required by auditing standards**

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### ***Procedures required by standards***

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

### **Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

## **5.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of Tendring District Council is £2,016k based on 2% of gross operating expenditure.

We will communicate uncorrected audit misstatements greater than £101k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **5.4 Fees**

The Audit Commission has published a scale fee for all authorities. This 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 £78,277.

However, extra audit fees may arise through our work on the Council's arrangements for the development of Jaywick.

Further information is provided in Appendix A.

## **5.5 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 and Banita Ludhor will supervise the on-site audit team and will be the key points of contact for the finance team and are responsible for raising and discussing emerging issues with officers.

## **5.6 Timetable of communication, deliverables and insights**

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

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

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

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
High level planning:	April 2014	June 2014	Audit Fee Letter
Risk assessment and setting of scopes	January – March 2015	March 2015 Audit Committee	Audit Plan
Testing of routine processes and controls	January - March 2015	June 2015 Audit Committee	Interim results report (if appropriate)
Completion of audit	June – September 2015	September 2015 Audit Committee	Report to those charged with governance via the Audit Results Report  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 to the NAO on the Whole of Government Accounts return
Conclusion of reporting	October 2015	December 2015 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.

## 6. Independence

### 6.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ 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</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

## 6.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that the Council has approved and that are in compliance with 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 the Council. 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. 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 has been employed by the Council as a senior finance manager from October 2013.	The 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 adopted safeguards appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, the audit engagement partner and the audit engagement team have not been compromised.

### **6.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Out-turn 2013/14 £	Published fee 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	78,277	93,699	77,377	<p>In 2013/14, management agreed scale fee variation increases approved by the Audit Commission for work on:</p> <ul style="list-style-type: none"> <li>• Coastal protection of £13,500;</li> <li>• The impact of the High Court Judgement on the Council's local council tax scheme of £1,026; and</li> <li>• Questions and correspondence from the public of £896.</li> </ul> <p>The further increase of £900 reflects extra audit procedures required to gain sufficient audit assurance around business rate income and expenditure within the Collection Fund, which also applies to 2014/15.</p>
<b>Total Audit Fee – Code work</b>	<b>78,277</b>	<b>93,699</b>	<b>77,377</b>	
Certification of claims and returns	19,090	23,746	16,931	<p>Our 2014/15 fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission based on the fee charged for 2012/13. The difference with the published fee for 2013/14, based on the fee charged for 2011/12 reflects more errors found when certifying the Council's 2012/13 housing benefits claim.</p> <p>The increase in outturn in 2013/14 compared to the 2013/14 published fee was due to the additional testing on the housing benefits and pooling of capital receipts returns.</p>

*All fees exclude VAT.*

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ The Audit Commission making no significant changes 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 Council; and
- ▶ The Council has an effective control environment.

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

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



## Appendix B UK required communications with those charged with governance

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

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Report to those charged with governance
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Report to those charged with governance
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Report to those charged with governance
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Report to those charged with governance
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Report to those charged with governance

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Going concern</b></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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual Report to those charged with governance summarising grant certification</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

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