Huntingdonshire District Council
Audit planning report

Year ended 31 March 2019

20 December 2018

Building a better working world

20 December 2018

Huntingdonshire District Council
Corporate Governance Committee
Pathfinder House
St Mary's street
Huntingdon
PE29 3TN

Dear Corporate Governance Committee Members

Outline Audit Plan for discussion

We are pleased to attach an Outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We are currently undertaking our audit planning procedures and once completed we will issue a Final Audit Plan confirming our audit approach and strategy.

This report is intended solely for the information and use of the Corporate Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 23 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel
For and on behalf of Ernst & Young LLP
United Kingdom

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Corporate Governance Committee and management of Huntingdonshire District Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Corporate Governance Committee, and management of Huntingdonshire District Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Corporate Governance Committee and management of Huntingdonshire District Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Corporate Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	**No change** in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud risk	**No change** in risk or focus, but shown separately	Linking to the management override risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment as a separate risk, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Financial management system	Significant risk	New risk	The Council has implemented a new finance system which represents a significant risk to the preparation of the financial statements.
Property, Plant and Equipment asset valuation including investment properties	Inherent risk	No change in Risk or focus	Property, plant and equipment (PPE) represents a significant balance of almost £70.4 million in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate PPE asset valuations held in the statement of accounts.
Pension Liability Valuation	Inherent risk	No change in risk	The Council's pension fund deficit is a material estimated balance (£72.3m at 31 March 2018) disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2018/19 audit strategy

In addition to the above fraud and inherent risks, we have identified three areas of audit focus:

1. Valuation of an Investment Property. We reported in our 2017/18 Audit Results Report on an investment property asset which requires extensive repair and renovation. The Council has involved a third part contractor to estimate the value of the work that the property requires. This adds an additional layer of complexity to the valuation approach.
2. Restructuring of the Finance Team. We are aware or proposed changes within the Finance Team. Management are taking action to fill the vacancies arising. However, in the short term there may be a loss of knowledge and experience which may impact on the production of the financial statements.
3. New accounting standards - For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). Furthermore the new standard relating to leases (IFRS 16) applies for 2020/21. The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.

Materiality

Planning materiality £1.8m

We have set materiality at £1.85m, which represents 2% of the prior years gross expenditure on net cost of services, plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs.

Performance materiality £0.9m

We have set performance materiality at £0.92 m, which represents 50% of materiality. This is consistent with the percentage used last year and reflects prior year issues, including the number of errors identified in the financial statements. Applying 50% increases the level of testing we need to undertake and therefore necessitates an additional audit fee. We include a potential range in Section A.

Audit differences £0.09m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £92,000. We will communicate other identified misstatements to the extent that they merit the attention of the Corporate Governance Committee.

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.

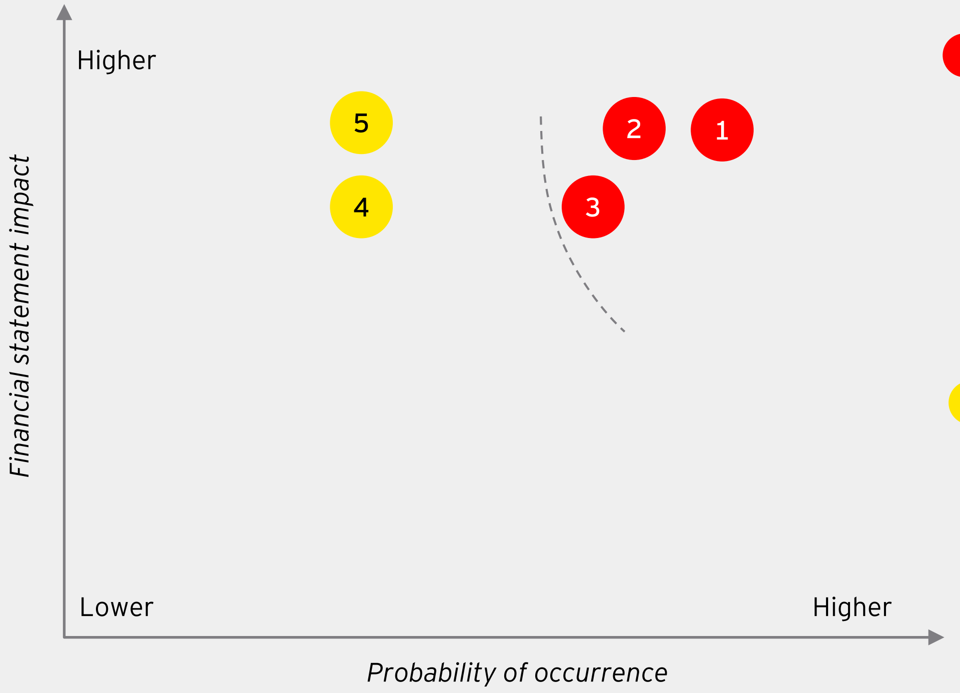
02 Audit risks

Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017-18 Annual Financial Report and combined it with our understanding of the sector to identify key risks that impact our audit for 2018-19.

The following ‘dashboard’ summarises the significant matters that are relevant for planning our year-end audit:



Significant risks

1 Management Override

2 Incorrect capitalization of revenue expenditure

3 New general ledger

Inherent risks

4 Property, Plant and Equipment asset valuation including investment property

5 Pension Liability Valuation

Our response to significant risks

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

Misstatements due to fraud or error *

What is the risk?

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

As identified in ISA (UK 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.

For the Council, we have identified the potential for the incorrect classification of revenue spend as capital including Revenue Expenditure Funded from Capital Under Statute as particular areas where there is a risk of fraud or error.

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider this risk is not material in relation to our audit of Huntingdonshire District Council.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring 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.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Reviewing critical judgements made by management in applying accounting policies.
- Assessing management's assumptions made about the future regarding major sources of uncertainty.

Our response to significant risks (continued)

Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	What is the risk?	What will we do?
	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. For Huntingdonshire District Council we have determined that this risk is most relevant to the ability of management to capitalise expenditure that should be treated as revenue.	Should capital expenditure be material to the financial statements, we will undertake additional procedures to address the specific risk we have identified, which will include: ▸ Testing a sample of capital expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately capitalised. ▸ Verifying that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code, and reflected appropriately in the Council's Movement in Reserves Statement.

Financial management system	What is the risk?	What will we do?
	The Council has migrated to a new financial management system. The migration to a new finance system is a significant event that involves extensive planning and arrangements to ensure that the governance of the process maintained, the new system delivers as expected and there is no loss of financial data. As such, we consider this to represent a significant risk to the audit where this occurs during the financial year.	In order to address this risk we will carry out a range of procedures including: ▸ Involving our risk assurances experts in assessing how the migration has been governed and performed; ▸ Testing the migration of the data to ensure it remains complete and accurate; ▸ Reviewing the mapping of data between the old and new systems; and ▸ Gaining an understanding of the new IT environment and the impact this has on the processes associated with significant classes of transactions.

Other risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Property, Plant And equipment asset valuation including investment properties</u> The fair value of Property, Plant and Equipment (PPE) (70.4m) and Investment properties (£34.2m) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually, assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. ▸ We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements.

Other risks (continued)

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £72.3 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire District Council; ▸ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the risk/area of focus?	What will we do?
<u>Valuation of an Investment Property</u> We reported in our 2017/18 Audit Results Report in 2017/18 on an investment property asset which requires extensive repair and renovation. The value of the property in the 2017/18 financial statements was £5 million (£7 million as at 31 March 2017) representing around 14% of the investment portfolio. The Council has involved a third part contractor to estimate the value of the work that the property requires. This adds an additional layer of complexity to the valuation approach. There is a risk fixed assets may be under or overstated.	We will: • Discuss with management the proposals for 2018/19 and consider whether we need to involving our EY Real Estates team (auditor's expert) to review the valuation because of the significant work involved around its impairment.
<u>Restructuring of the Finance Team</u> We are aware or proposed changes within the Finance Team. Management are taking action to fil the vacancies. However, in the short term there may be a loss of knowledge and experience which may impact on the production of the financial statements.	We will: • Review management's proposals to restructure the team and consider the impact for the production of the financial statements especially given the pressure on the Finance Team to produce accounts to the deadline of 31 May 2019.
<u>New accounting standards</u> The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are: ► IFRS 9 – Financial instruments ► IFRS 15 – Revenue from contracts ► IFRS 16 – Leases [2020/21] There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.	We will: • We will engage early with the Council on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Council's proposed accounting and disclosures. • If we need to undertake additional audit procedures on the Council's assessments we will discuss with the Head of Resources the impact on our audit fee.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public."

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this will include consideration of the steps taken by the Council to consider the impact of the UK's exit from the EU on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that local authorities will be carrying out scenario planning and that EU Exit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage we have not identified a significant risk to our value for money conclusion but we will continue to review the resilience of the Council's MTFS and commercial activity as regards investment properties during the course of the audit.

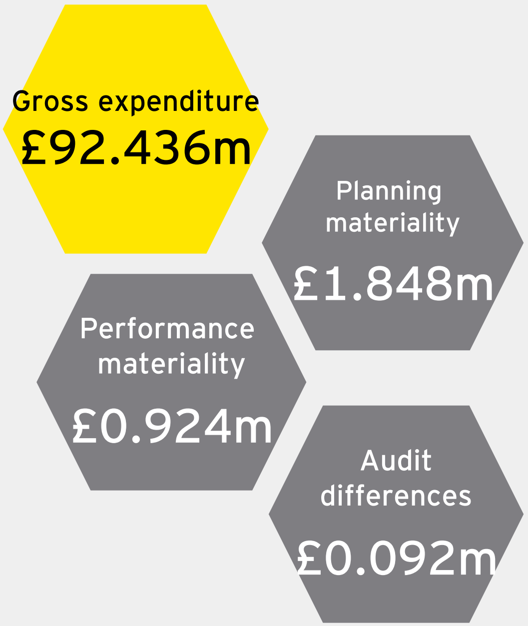
We will continue to revisit this assessment as our audit progresses and update the Audit Committee of any changes.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1.848 million. This represents 2% of the Council's prior year gross expenditure on net cost of services, plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs. It will be reassessed throughout the audit process. The main function of the entity is to provide services to the local community and as such the income statement is considered to be the most appropriate basis for determining materiality. We have provided supplemental information about audit materiality in Appendix D.



We request that the Corporate Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. We have set planning materiality at £1.848m for the planning stage of the audit.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.924m which represents 50% of planning materiality as in 2016/17. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the difficulties experienced in the prior year, including the number of errors identified in the financial statements we have determined that performance materiality needs to be set at 50% of planning materiality. This also takes into consideration the circumstances since the prior year audit, such as the changes in the finance team. We typically expect to set performance materiality at 75% of planning materiality. Using 50% an impact on the level of work we are required to perform, and therefore the audit fee.

Audit difference threshold – we propose that misstatements identified below this threshold of £92,000 are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Corporate Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of the audit difference threshold of £5,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Corporate Governance Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit (SIAS), and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scope of our audit

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Council needs to prepare draft accounts by 31 May and publish audited accounts by 31 July. There are risks for both the preparers and the auditors of the financial statements:

- The Council has a short timetable to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for our analytics, late working papers, internal quality assurance arrangements, changes to finance team etc.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- the accounts and working papers to have been subject to senior internal quality review;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Work with the Council to embed use of the EY Client Portal successfully, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on-demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

06 Audit team and use of specialists

Audit team

Audit team structure:

EY Real Estate (Valuations Specialist)

EY Pensions (Pensions Specialist)

Suresh Patel
Lead Audit Partner

Chris Hewitt
Audit Manager

Sadaf Zahid
Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit. We will continue to keep our audit approach under review to streamline it where possible.

Audit team changes

We have made two key changes to the audit team, bringing in Suresh Patel and Chris Hewitt as your lead audit partner and audit manager respectively. Both Suresh and Chris have significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds in an around the East of England. They are members of the Chartered Institute of Public Finance and Accountancy (CIPFA). And Chris is an Associate of the Institute of Chartered Accountants in England and Wales (ACA). Sadaf remains the Senior on your audit.

In addition, to provide relevant skills we have included members of our Information Technology Risk Assessment (ITRA) team as part of your audit team.

Audit team and use of specialists

Use of Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment, and Investment Properties	Management specialist - Barker Storey Matthews (external valuer) EY specialist – EY real estates (in relation to investment property and where required)
Pension valuations and disclosures	Management actuarial specialist - Hymans Robertson EY specialists - EY Pensions Advisory, PwC (Consulting Actuary to the PSAA)
Fair value of financial instrument disclosure	Management specialist – for the provision of fair value information in respect of financial instruments (Arlingclose)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work;
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements; and
- Where appropriate, engage our own specialist support in any areas where we identify concerns, trigger events and/or estimations that are outside of our assessed acceptable range.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

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

Reporting our independence, risk assessment, planned audit approach and the scope of our audit

Audit Plan

Reporting our conclusions on key judgements and estimates and confirmation of our independence

Audit Results Report

The Annual Audit Letter will be provided following completion of our audit procedures

Annual Audit Letter

Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug

Planning

Walkthroughs

Interim Audit

Substantive testing

Planning

Risk assessment and setting of scopes

Walkthroughs

Walkthrough of key systems and processes

Interim Audit

Early substantive testing and ITRA review of financial systems

Year End Audit

Year end audit. We will complete any substantive testing not completed at interim

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:6. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no 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 the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

All fees exclude VAT	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Code work at scale fee	40,992	40,992	53,236
Impact of 50% performance materiality	10,000-12,500	n/a	12,455*
Additional significant risk – investment property	-	n/a	4,415*
Additional audit overruns and delays	-	n/a	2,922*
Early close of accounts	-	n/a	3,202*
New general ledger	12,500-20,000	n/a	n/a
Total audit fees	63,492-73,492	40.992	76,230
Non-Audit Work - Housing Benefit certification	12,400	n/a	To be confirmed
Total non-Audit Work	12,400	n/a	To be confirmed

* To be approved by PSAA

In addition, the agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. Any variations to the audit fee need to be approved by PSAA. Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Corporate Governance Committee

We have detailed the communications that we must provide to the Corporate Governance Committee**.**

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Corporate Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - January 2019
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report – July 2019
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report – July 2019

Appendix B

Required communications with the Corporate Governance Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report – July 2019
Fraud	▸ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report - July 2019
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report - July 2019
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report –January 2019 Audit Results Report – July 2019

Appendix B

Required communications with the Corporate Governance Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – July 2019
Consideration of laws and regulations	▸ 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 Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance Committee may be aware of	Audit results report - – July 2019
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report - – July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - – July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – July 2019
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – July 2019
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report –January 2019 Audit Results Report – July 2019

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Corporate Governance Committee reporting appropriately addresses matters communicated by us to the Corporate Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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