



Huntingdonshire District Council Audit planning report

Year ended 31 March 2018

14 March 2018



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

14 March 2018

Dear Corporate Governance Committee Members

Audit planning report

We are pleased to attach our 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 2017/18 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.

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 28 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

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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 February 2017)" 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 2017/18 audit strategy



Overview of our 2017/18 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
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.
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.
Valuation of investment property	Significant risk	Increase in risk or focus	<p>The valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain.</p> <p>However, we understand that one asset within the portfolio, which is highly material, 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 and therefore the risk has been increased to a significant risk.</p>
Property, Plant and Equipment Valuation	Other financial statement risk	No change in Risk or focus	<p>Property, Plant and Equipment, specifically other land and buildings, represents a significant balance in the Council's accounts which are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value. The Council will engage an external expert valuer who will apply a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
Pensions Liability - IAS19	Other financial statement risk	No change in risk or focus	<p>The Council operates a defined benefit pension scheme. Accounting for this scheme involves estimation and judgement. The Pension liability is the largest balance on the balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>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.</p>

In addition to the above there have been changes to the materiality used in the performance of our audit procedures that impact the level of work required. More information on this has been set out on the following page.

Overview of our 2017/18 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Huntingdonshire District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our 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.

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

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.

Materiality

Planning
materiality

£1.8m

Materiality has been set at £1.808m, 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

Performance materiality has been set at £0.904m, which represents 50% of materiality. This compares to 75% which was used in the prior year. 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 senior finance team, the impact of the condensed close down timetable for the preparation of the financial statements and the our ability to fully assess improvements in the process. This decrease has an impact on the level of work we are required to perform, and therefore the audit fee.

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 £0.09m. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Governance Committee.

Overview of our 2017/18 audit strategy

Other matters impacting 2017/18

Faster closure of accounts, earlier publication and audit

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements and capacity of the finance team to deliver draft accounts within the deadline.

Given the difficulties experienced in the prior year and the changes in the finance team in the current year we have rated the Council as Amber in terms of meeting this deadline. This means that we consider there to be a heightened risk of achievement of the 31 July deadline not being met.

We have been engaging with the Section 151 officer and the finance team since the prior year on a range of activities to support in facilitating adequate planning for the preparation of the financial statements and audit working papers, these include:

- ▶ Inviting finance staff to a workshop on faster close along with colleagues from other authorities
- ▶ Introducing the Client Portal, an online tool enabling information to be exchanged securely and efficiently, reducing email traffic and time spent by finance officers dealing with audit queries
- ▶ Agreeing aspects of the council's transactions that we can test as part of the interim visit
- ▶ Early discussion on key areas of judgement and estimation.

The recent changes in the finance team, including the appointment of an interim Chief Accountant to manage the accounts closure process continues to contribute to the risk of achievement.

We have agreed a timetable with the Council for our interim audit testing and our year end visit. There is little room for slippage so we are monitoring adherence to the timetable and the standard of information and query resolution.

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;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

The issues experienced in the prior year have also impacted on our risk assessment process for the current year for areas such as value for money and materiality. These have been set out in more detail in sections 3 and 4 respectively.



02

Audit risks



Audit risks

Our response to significant risks

We have obtained an understanding of your strategy, reviewed your principal risks and combined it with our understanding of the sector to identify key risks that impact our audit. 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.

Specifically, as the Council is more focussed on its financial position over the medium term we have focussed this risk on the capitalisation of revenue expenditure on Property, Plant and Equipment.

We will also considered other areas where management can apply judgement and estimation, including the valuation of the NNDR appeals provision, the calculation of statutory adjustments impacting the general fund such as the minimum revenue provision (MRP) and revenue expenditure financed from capital under statute (REFCUS).

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ 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 accounting estimates for evidence of management bias.
- ▶ Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- ▶ Testing the assumptions and data used in the calculation of the NNDR appeals provision; and
- ▶ Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2016/17 financial statements:

Income Account: £97.601m

Expenditure Account: £94.036m

There could also be a resulting impact on balance sheet accounts and the overall reserves position.

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council incurred a surplus of £0.1 million chargeable to the General Fund. As the Council is more focussed on its financial position over the medium term we do not consider the Council's standard in year income and expenditure streams to have any heightened risk.

We consider the area most susceptible to management bias and misreporting to be the most relevant and have therefore linked to our work over management override of controls (see above). In relation to expenditure we have focussed this risk on the capitalisation of revenue expenditure on Property, Plant and Equipment and the valuation of the NNDR appeals provision.

What will we do?

As the risk areas identified also link to our risk over management override of control we will consider the results of our work over the inappropriate capitalisation of expenditure and the calculation of the NNDR appeals provision, as set out in the management override of control section above, for inappropriate expenditure recognition.

Although we do not consider there to be a heightened risk in the remainder of revenue and expenditure we will also consider the results of our standard procedures over the following:

- ▶ Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (see also the management override of control section below);
- ▶ Reviewing income and expenditure accounting estimates for evidence of management bias;
- ▶ Review audit findings from our work on management override of control and consider any factors that highlight the need for additional considerations/audit work on revenue and expenditure recognition;
- ▶ Evaluating the business rationale for any significant unusual transactions.

Our response to significant risks (continued)

Valuation of investment property

What is the risk?

The fair value of Investment Properties (IP) 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.

There is one IP asset with a net book value of £7 million (as at 31 March 2017) representing c.23% of the IP portfolio which has been identified as requiring extensive repair and renovation. The exact quantum of work is unknown but 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 and as a result there is a risk that the financial statements could be materially misstated at year-end.

The overall valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain.

What will we do?

In relation to the asset to which the significant risk relates, we will:

- ▶ Consider the work performed by the Council's valuer, including the judgements and assumptions made in assessing the impact the capital works have on the property's value;
- ▶ Engage an EY estates specialist to consider the valuation of the property to ensure that the asset has been materially stated; and
- ▶ Test the base data used in performing the valuation (e.g. floor plans, structural repairs works schedules and costings).

More generally, to address our inherent risks over the investment property as a whole 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);
- ▶ Confirm that all investment properties have been subject to annual valuation as at 31 March as required by the Code.
- ▶ Considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- ▶ Test accounting entries have been correctly processed in the financial statements,

Audit risks

Other areas of audit focus

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?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) 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.

Pension Liability Valuation

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 2017 this totalled £72.161 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.

What will we do?

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 2017/18 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.

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.



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 2017/18 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.

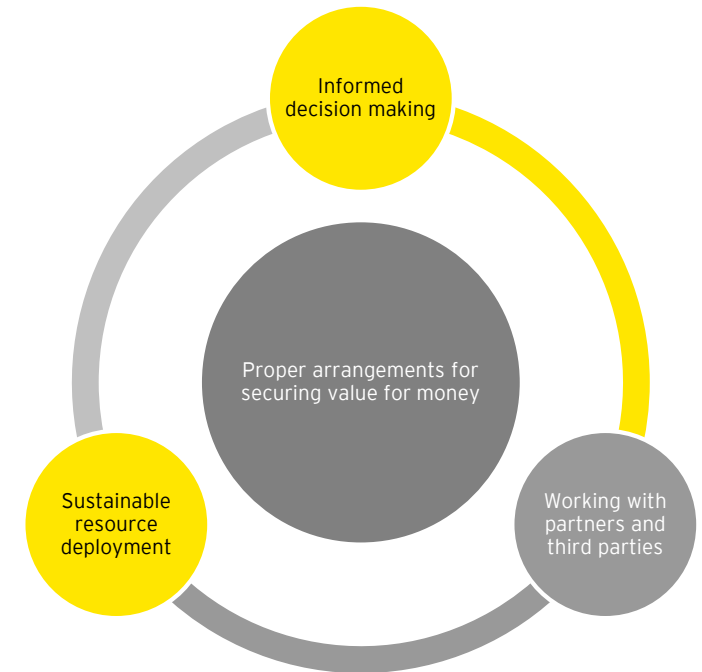
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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.

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. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion. We have also included an additional area of audit focus, though we do not consider this to be a significant risk.





Value for Money Risks

What is the significant value for money risk?

In the prior year we experienced significant difficulties in completing our audit. This included the adequacy of working papers and their reconciliation to the financial statements, the timeliness of deliverables and responses to auditor queries, over reliance on key individuals, and a number of adjustments being amended in the financial statements.

All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors.

Following the prior year audit there have then been changes in the finance team resulting in a strain on resources and work on areas such as the budget. An interim Chief Accountant has recently been engaged to manage the finance team and lead on the preparation of the 2017/18 financial statements.

The faster close timetable in 2017/18, as well as the pressure of implementing a new finance system ready for 2018/19 will put considerable strain on the finance team's ability to deliver conflicting priorities.

Whilst our risk assessment for the financial statements audit has not identified a heightened risk in any particular area, we do consider that there is a risk to demonstrating that there have been effective arrangements in place to demonstrate the Council has planned, organised and developed the workforce (namely the finance team) to deliver the financial statements. The additional time and costs incurred by the Council during the accounts and audit process, risks distracting staff from the ongoing delivery of strategic priorities and should be avoidable with effective planning and resource deployment.

The risks to not being able to prepare and sign off on the financial results for the year also raises risks around the Council's ability to take informed decisions, where decisions are made on draft information which is then subject to significant amendment.

What arrangements does the risk affect?

Take informed decisions / Deploy resources in a sustainable manner

What will we do?

Our approach will focus on:

- ▶ Reviewing the changes made to the financial reporting process to address the issues identified in the prior year;
- ▶ Reviewing the accounts closedown timetable, including the timescales for the preparation of the financial statements and supporting working papers ready for audit;
- ▶ Considering the Council's allocation of tasks to individuals in the finance team for both preparation and review to ensure these are reasonable;
- ▶ Assessing the results of the interim audit for improvements in the process;
- ▶ Considering the adequacy of the draft financial statements and working papers, as well as the finance teams ability to respond to additional queries in a timely manner;
- ▶ Consider the overall accounts and audit experience as we complete the audit, seeking validation that changes have been made to address the issues identified in the prior year;
- ▶ Reviewing internal audit reports to identify any significant issues identified during finance related reviews and consider the impact on the overall control environment;
- ▶ Reviewing the monitoring of the significant findings arising from our audit in 2016/17 as part of the Corporate Governance Committee; and
- ▶ Testing for any significant impact resource capacity has had on the Council's in year financial reporting and budget setting. This will include comparing forecast vs actual outturns, assessing appropriate segregation of duties in the preparation and review/sign off of quarterly reporting and budget setting during 2017/18. We will also assess the significant assumptions used in the budget setting process for appropriateness.

Value for Money Risks

What is the area of focus associated with value for money?

The Council has been actively pursuing its commercial investment strategy over the past few years, and 2017/18 has included the purchase of an additional out of area property.

As government funding continues to come under pressure, the reliance on commercial revenue streams becomes heightened. The nature of commercialisation exposes the Council to additional risks around property values, achievement of investment yields and more volatility in the preparation of budgets.

Where the Council is borrowing to invest in its strategy it is also important the Council considers all costs associated with the related investment, to confirm that the overall net return is consistent with the assumptions being included in the medium term financial strategy.

What arrangements does this affect?

Take informed decisions / Deploy resources in a sustainable manner

What will we do?

We will:

- ▶ Review the decision making process for the acquisition of the out of area property purchased during the financial year, including any associated due diligence, and at a high level the factors taken into account in calculating the investment yield;
- ▶ Review the assumptions on commercialisation included in the 2017/18 budget and compare these against the actuals achieved, seeking explanation for any significant variance;
- ▶ Review the process for ongoing monitoring and reporting of the commercial investment strategy;
- ▶ Review the assumptions included in the medium term financial strategy and consider them for appropriateness; and
- ▶ Consider any recent case law and how the Council has taken this into account when reviewing their commercial investment strategy.



04

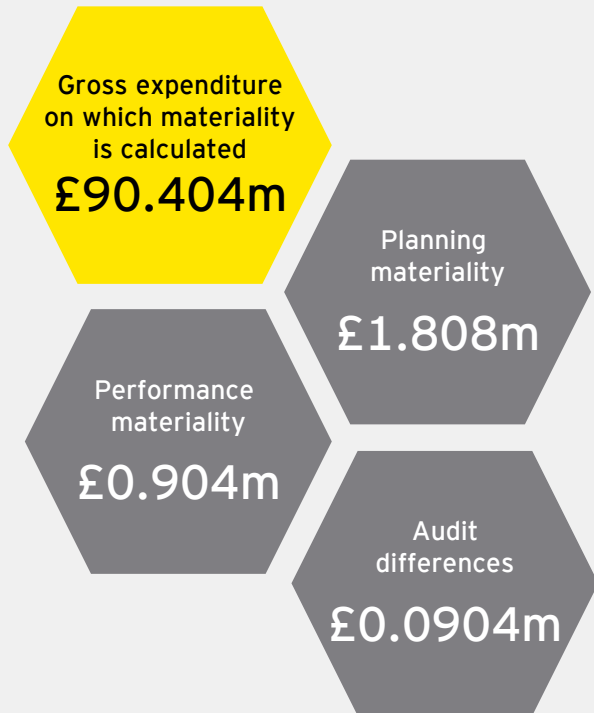
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.808 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.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.904m which represents 50% of planning materiality. This compares to 75% which was used in the prior year. 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 senior finance team, the impact of the condensed close down timetable for the preparation of the financial statements and the our ability to fully assess improvements in the process. This decrease has 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 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.

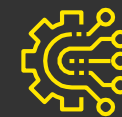
Specific materiality - We have set a specific materiality for the areas below which reflects our understanding that an amount less than our materiality may influence the economic decisions of users of the financial statements:

- Remuneration disclosures, related party transactions and councillor allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



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 2017/18 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 review internal audit plans and the results of any relevant work. We will consider the findings from these reports, together with reports from any other work completed in the year, as part of our detailed audit planning, where they raise issues that could have an impact on the financial statements.



06

Audit team and use of specialists



Audit team and use of specialists

Audit team

The engagement team is led by Neil Harris, who has significant experience on council audits. Neil is supported by Hayley Clark, an experienced Senior Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant. The day to day audit team will be lead by Sadaf Zahid, an experience senior within our government and public sector team. There have been no changes in your senior audit team compared to the prior year.

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)
NNDR appeals provision	Management specialist - Pixels financial management

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; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





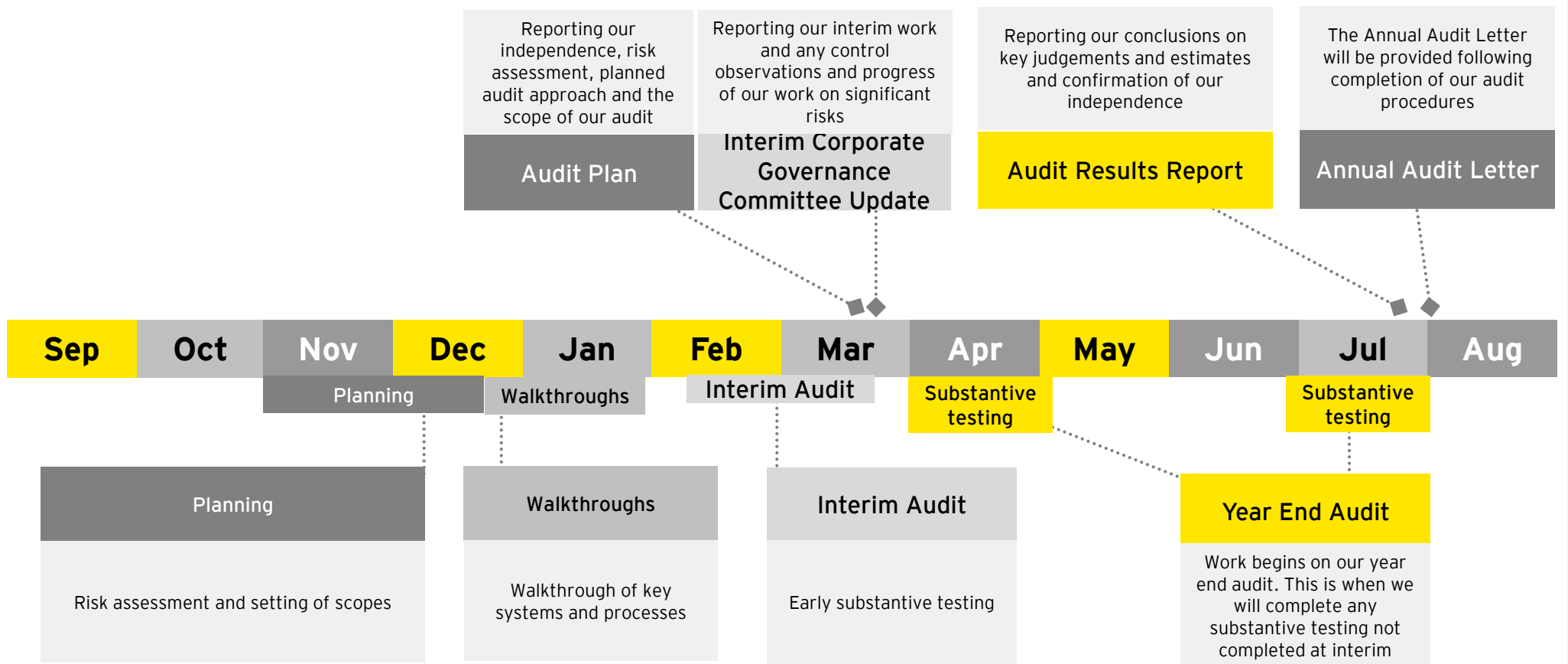
Audit timeline

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 2017/18.

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.





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
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ 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 Neil Harris, 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 audit fees is not permitted to exceed 70%. At the time of writing, the current ratio of non-audit fees to audit fees is 0:1. 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 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.

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 2017

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 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



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.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
PSAA scale fee - Code work	53,236	53,236	53,236
Prior year overrun (note 1)	N/A	N/A	22,603
Impact of lower materiality thresholds	8,000 - 12,000	N/A	N/A
Investment property significant risk	2,500 - 3,000	N/A	N/A
Value for Money significant risk	2,000 - 3,500	N/A	N/A
Total audit	65,736 - 71,736		75,839
Other non-audit services not covered above (Housing Benefits)	18,136	18,136	17,522
Total other non-audit services	18,136		17,522
Total fees	83,872 - 89,872	71,372	93,361

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.

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

All fees exclude VAT

Note 1 - This amount is subject to approval by the PSAA and will be billed as soon as this is confirmed.

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to:

1. The impact of being required to undertake our audit to a lower materiality level as a result of the findings arising from the prior year audit. Details of this are included in section 4. The lower threshold against which our audit procedures are to be performed means that additional audit testing will be required. This also decreases our threshold for investigating variances where we performed procedures such as substantive analytical review.
2. The additional work required as a result of the increase risk associated with investment properties, primarily relating to the use of EY specialist to provide assurance over the valuation of one particular asset. Details of this can be seen in section 2.
3. The work required to address the significant value for money risk set out in section 3.




Due to the ongoing nature of the issues we are not yet in a position to give a definitive view on the extent of work required but will keep this under review with management and provide you with updates accordingly.

All scale fee variations will be subject to agreement with the PSAA.

Appendix B





Required communications with the Corporate Governance Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 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	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report	




Appendix B

Required communications with the Corporate Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Misstatements	<ul style="list-style-type: none"> ▶ 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
Fraud	<ul style="list-style-type: none"> ▶ 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
Related parties	<ul style="list-style-type: none"> ▶ 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
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report

Appendix B

Required communications with the Corporate Governance Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the 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	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> ▶ 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	
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 Audit results report	
Certification work	Summary of certification work undertaken	Certification report	

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.