Kettering Borough Council

Initial Audit Planning report

Year ended 31 March 2019

5 February 2019

Building a better working world

5 February 2019

Monitoring and Audit Committee Members
Kettering Borough Council

Dear Monitoring and Audit Committee Members

2018/19 Initial Audit Plan

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Monitoring and Audit 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. This is an initial audit plan as we have not yet completed all our planning procedures at the date of this report. We are undertaking additional planning and interim audit procedures from the middle of February 2019. We will provide an update to this plan at your meeting on the 10th April 2019. Our initial audit plan follows discussions we have had with the Council's senior management on 27th March 2018, 17th April 2018, 13th September 2018 as well as our review of the Council's significant strategic, decision making, financial management and risk management papers. We have also carefully considered the findings of your predecessor auditor, KPMG LLP.

This report is intended solely for the information and use of the Monitoring and Audit 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 5th February 2019 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 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 Monitoring and Audit Committee and management of Kettering Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Monitoring and Audit Committee, and management of Kettering Borough 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 Monitoring and Audit Committee and management of Kettering Borough 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 Monitoring and Audit 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 from assessment made by KPMG	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	Fraud risk	New area of focus	Linking to our fraud 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.
Omission or understatement of provisions	Fraud risk	New area of focus	Linking to our fraud risk above we have considered the omission or incorrect valuation of provisions as a separate risk which could result in the material understatement of expenditure in year.
Incorrect adjustments through the Movement in Reserves Statement	Fraud risk	New area of focus	Linking to our fraud risk above we have considered the adjustments between accounting basis and funding basis under regulations as a separate risk which could impact on the General Fund and other useable reserves reported in the Movement in Reserves Statement in the financial statements.
Accounting for the Collection Fund surplus	Fraud risk	New area of focus	Linking to our fraud risk above we have considered the accounting treatment of the Collection Fund surplus between the Council and Northamptonshire County Council as a separate risk which could impact on the General Fund and other balances reported in the financial statement.
Valuation of land and buildings including Council Dwellings and Investment Properties	Inherent risk	No change from assessment made by KPMG	The valuation of land and buildings represent significant balances in the Council's accounts. 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 a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.
Pension liability valuation	Inherent risk	No change from assessment made by KPMG	The Council's pension fund deficit is a material estimated balance 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

Audit scope

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

- Our audit opinion on whether the financial statements of Kettering Borough Council give a true and fair view of the financial position as at 31 March 2019 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.

Your audit team will be led by

Neil Harris – Associate Partner
Neil has over 25 years experience of Local Authorities, Pension Funds and their respective audits, and has been an Engagement Leader in EY for six years, having previously worked for the Audit Commission as a District Auditor between 2009 and 2012.

02 Audit risks

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, the omission or understatement of provisions, Incorrect adjustments through the Movement in Reserves Statement and Accounting for the Collection Fund surplus 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 Kettering Borough 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.
- 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.

Our response to significant risks (continued)

Incorrect capitalisation of revenue expenditure*	What is the risk?	What will we do?
	Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council’s projected Capital Programme spend for 2018/19.	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: ➢ Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

Our response to significant risks (continued)

Omission or understatement of provisions *	What is the risk?	What will we do?
	Linking to our risk of misstatements due to fraud and error above, we have identified the omission and incorrect valuation of provisions as a separate risk which could result in the material understatement of expenditure in year. This includes Bad Debt Provisions and the NDR Appeals Provision.	We will undertake additional procedures to address the specific risk we have identified, which will include: ➢ Reviewing provisions included in the accounts to ensure they are calculated on an appropriate basis and have been correctly valued. ➢ Undertaking procedures such as review of minutes and enquiries of management and those charged with governance to gain assurance over the material completeness of provisions.

Our response to significant risks (continued)

Incorrect adjustments through the Movement in Reserves Statement *	What is the risk?	What will we do?
	Linking to our risk of misstatements due to fraud and error above, we have identified the adjustments between accounting basis and funding basis under regulations which are reflected in the movement in reserves statement as an area where errors in these adjustments could result in a misstatement of the general fund and other useable reserves.	To address this risk we will review adjustments between accounting basis and funding basis under regulations for evidence of management bias, focusing in particular on the material accuracy of; ➢ Reversal of items related to capital expenditure; and ➢ Capital expenditure financed from revenue balances

Our response to significant risks (continued)

Accounting for the Collection Fund surplus*

What is the risk?

Linking to our risk of misstatements due to fraud and error above, we have identified the accounting treatment of the Collection Fund surplus between the Council and Northamptonshire County Council as a separate risk which could impact on the General Fund and other balances reported in the financial statements.

The County Council's Stabilisation Plan includes measures which are dependent on the District Councils taking actions in areas such as varying the timetable and estimating sums in relation to the Council Tax surplus.

What will we do?

To address this risk we will:

- Review legal advice taken by Kettering Borough Council and the assessment of the legal advice, governance and reasonableness of decision making by Kettering Borough Council in recommending its accounting treatment for the 2018/19 financial statements; and
- Review, as appropriate, the methodology used to calculate the surplus on the Collection Fund and how this is apportioned.

At the date of this report, we have already undertaken a significant amount of work to review the joint proposals of the County and District Councils. With the support of legal and accounting advice, we have presented all of the Chief Financial Officers across the Northamptonshire Local Government bodies with our provisional views on the proposals. At this stage, we do not anticipate that the proposals will take effect during the 2018/19 financial year. Should that be the case, then we will reconsider whether this area is a significant risk. If this changes, we will update the Monitoring and Audit Committee.

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.

What is the risk?	What will we do?
Valuation of land and buildings – inherent risk The fair value of property, plant and equipment (PPE), Council Dwellings and 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.	In order to address this risk we will carry out a range of procedures including: • Consider the work performed by the Council's valuers, 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 valuers 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 and annually for IP. 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.
Pension liability valuation– inherent risk 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 Northamptonshire 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. 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.	In order to address this risk we will carry out a range of procedures including: • Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Kettering Borough 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 The National Audit Office 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 (cont.)

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.

What is the area of focus?	What will we do?
<u>IFRS 9 financial instruments</u> This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.	We will: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements.
<u>IFRS 15 Revenue from contracts with customers</u> This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Check additional disclosure requirements.

Other areas of audit focus (cont.)

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.

What is the area of focus?	What will we do?
Re-organisation of local government in Northamptonshire The re-organisation of local government in Northamptonshire may impact upon the capacity of the Council to identify and implement the efficiency savings necessary to close the forecast budget gap in future years. This may also impact on the capacity and resilience of the Council's finance team to maintain an effective control environment for the closedown of its financial statements. The proposal for an interim governance structure is taking up considerable chief officer time and expenditure is being set aside to cover the costs of reorganisation.	We will: • Maintain a watching brief over developments in relation to the reorganisation and any impact on officers' capacity and resilience; and • Check additional disclosure requirements relating to the reorganisation in the 2018-2019 financial statements.

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:

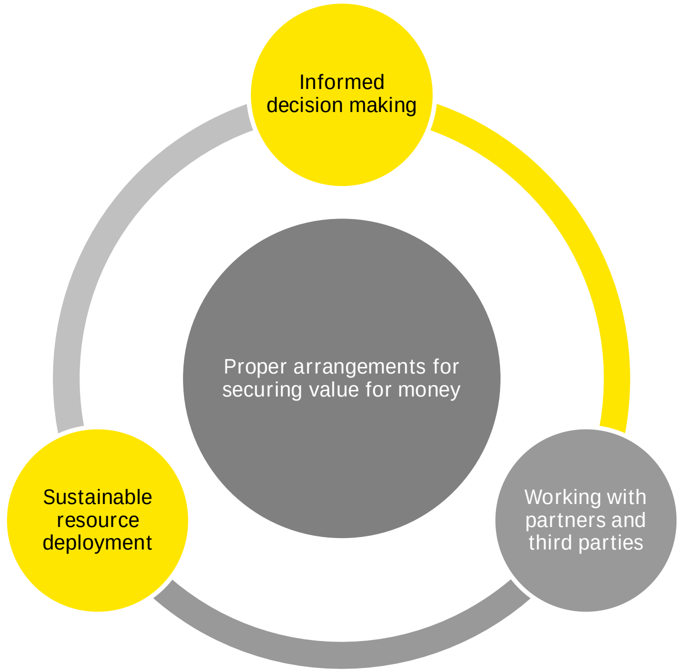
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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.

We will complete our Value for Money risk assessment in February 2019. As part of this we will consider the steps taken by the Council to secure its financial sustainability. Using the 2019-2020 budget papers and medium term financial strategy, we will complete a financial resilience qualitative and quantitative assessment. If this highlights any concerns, we will undertake additional work to review the assumptions supporting the Council’s financial plans, including efficiency and saving measures. Although we have not completed our risk assessment we have identified the growing commercial activity of the Council as an area that may present a significant risk and which we therefore need to undertake more work on as part of our risk assessment, as outlined on the following slide.



Value for Money – potential risk: commercial activity

What is the issue?

The Council has expanded its commercial activities, both inside and outside of area. The Council has an ambitious capital and property strategy which assesses the opportunities available to the Council to enable it to become more self-sufficient. In 2017/18, the Council acquired significant investment properties, one out of area and another jointly with Corby Borough Council. The Council is aiming through these purchases to generate income to replace reduced funding by central government. Given the significance of these arrangements to the Council's financial strategy, the effectiveness of the governance and risk management arrangements related to the development are crucial. Key issues that should be addressed as part of these arrangements include:

- Ongoing assessment of the risks and rewards from investments.
- Implications for the Council's medium term financial strategy, capital strategy and borrowing requirement.
- Consideration of options and alternatives for any future commercial decisions and investments.

As part of our work on the Council's opening balances (1 April 2018), we will seek to understand the governance and decision making arrangements the Council put in place for the acquisitions in the 2017-2018 financial year. We will also update and consider any similar decisions taken during the 2018-2019 financial year.

What arrangements may this affect?

This issue affects all three of the sub-criteria :

- Taking informed decisions.
- Deploying resources in a sustainable manner.

What will we do?

We will undertake a due diligence review through:

- Reviewing the work of the Council's previous auditor, KPMG in respect of the due diligence performed on previous commercial acquisitions and determine whether EY needs to undertake further work on the decision making arrangements. This could include the involvement of our internal specialists EY Real Estates;
- Discuss with the Council's key officers progress and current position and assumptions on its commercial investments;
- Reviewing the assumptions (including assessment of risk and reward) the Council are making from its commercial investments in its 2019-2020 budget and medium term financial strategy.
- Reviewing how the Council has taken account of the updates to the prudential framework guidelines in its capital and treasury management strategies.
- Considering the impact of these development, if any, in the context of any future re-organisation of local government in Northamptonshire.

06 Audit team

Audit team

Audit team structure:

Pension Specialist

EY Actuaries

Property Valuer

Neil Harris
Associate Partner

Julie Kriek
Manager

Sheena Phillips
Senior

Working together with the Council

We are working together with officers to establish strong communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

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
Valuation of Land and Buildings	We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used by the Council's valuers.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Northamptonshire County Council Pension Fund.

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 2018/19.

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

Audit Plan (Feb): Reporting our independence, risk assessment, planned audit approach and the scope of our audit

Audit Results Report (Jul): Reporting our conclusions on key judgements and estimates and confirmation of our independence

Annual Audit Letter (Aug): The Annual Audit Letter will be provided following completion of our audit procedures

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

Year End Audit: Work begins on our year end audit. This is when 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 [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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 audits fees is not permitted to exceed 70%. The Council have asked us to act as the reporting accountant for the certification of the 2018/19 housing benefits subsidy claim. The proposed fee for this work will be significantly below 70%. 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

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total Fee – Code work Note 1	41,337	41,337	To be confirmed
Total audit fees	41,337	41,337	To be confirmed
Non-Audit Work Housing Benefit certification - Note 2	5,200	Not Applicable	To be confirmed
Total non-Audit Work	5,200	Not Applicable	To be confirmed

All fees exclude VAT

Note 1:
The planned fees for 2018/19 may be subject to a scale fee variation due to increases in the scope of the audit as summarised below:

► The audit of new significant risks covering capitalisation of revenue expenditure, provisions, reserves and Collection Fund surplus;
► The areas of focus highlighted in the Audit Plan; and
► The audit coverage of the governance risks relevant to due diligence work covering commercial activity.

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.

Note 2
We have set out our caveats to this fee in our certification letter of 18 May 2018.

Required communications with the Monitoring and Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and 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 Plan – February and April 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

Appendix B

Required communications with the Monitoring and Audit Committee ~~(continued)~~

		Our Reporting to you
Required communications	What is reported?	When and where
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 Plan – February and April 2019 Audit Results Report – July 2019
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 Audit and 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 Audit and 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

Appendix B

Required communications with the Monitoring and Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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
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 Audit and 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

Appendix B

Required communications with the Monitoring and Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 Plan – January 2019 Audit Results Report – July 2019 Annual Audit Letter – August 2019
Certification work	Summary of certification work undertaken	Annual Certification report – December 2019

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 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 Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and 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 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.

We will provide the Monitoring and Audit Committee with details of our planned materiality levels at its meeting on the 10th April 2019. This will taken in to account the conclusion of our planning and risk assessment procedures.