

Cherwell District Council

Audit Planning Board Report 2013-14

January 2014

Ernst & Young LLP



Building a better
working world

The Members of the Accounts, Audit and Risk Committee
Cherwell District Council
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08 January 2014

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Dear Member


Audit Planning Board Report 2013-14

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Accounts, Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2013-14 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that our audit is in line with the Committee's expectations.

This report summarises our assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response.

We welcome the opportunity to discuss this report with you on 22 January 2014 and understand any other matters which you consider may influence our audit.

Yours faithfully



Mick West
Audit Director
For and behalf of Ernst & Young LLP

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1. Overview

1.1 Context for the audit

This audit plan covers the work we plan to perform, to provide the Council with:

- ▶ An audit opinion on whether the financial statements of Cherwell District Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended
- ▶ A conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (the value for money conclusion)

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements and value for money conclusion
- ▶ Developments in financial reporting and auditing standards
- ▶ The quality of systems and processes
- ▶ Changes in the business and regulatory environment
- ▶ Management's views on all of the above

This enables us to focus our audit on the areas that matter. By focusing on these, our feedback is more likely to be relevant to the Council.

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

In parts 2 and 3 of this report we provide more detail on our assessment of the risks that we reach the wrong opinion or value for money conclusion. In part 4 we provide detail of the certification work. Details of our audit process and strategy are set out in more detail in section 5, and summarised below.

As part of our planning we identified two risks to the audit of the financial statements and one significant risk for the value for money conclusion on the Council's use of resources and a further two other risks.

Financial statements – risks

- ▶ Misstatement due to fraud or error - this is an inherent risk due to the nature of local authority finances and ever increasing pressures on management to achieve financial targets.
- ▶ Implementation of a new payroll system - there are inherent risks associated with the migration of payroll data which could result in errors and misclassifications of payroll costs.

Value for money conclusion – significant risk

- ▶ Management of capital projects - the Council manages a substantial capital programme, including a number of high profile capital schemes. Failure to deliver these projects within budget and on time could result in loss of economic benefit, reputational damage to the Council and a failure to secure value for money.

Value for money conclusion – other risks

- ▶ Financial resilience - with the ongoing economic climate and tighter local government financial settlement, the pressure on financial resources continues to increase. The Council acknowledges that these pressures will adversely impact on its medium term financial plans and are likely to lead to difficult decisions in later years.
- ▶ Delivering services - in view of the pressure on the Council’s finances the delivery of value for money through its income and expenditure becomes ever more important. Failure to do so will intensify the financial pressures that the Council faces and could ultimately lead to reduced services.

We will provide an update to the Accounts, Audit and Risk Committee on the results of our work in these areas in our annual results report in September 2014.

1.2 Our process and strategy

1.2.1 Financial statement audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council’s level of gross expenditure. We also consider the size of useable reserves, the Council’s financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

We aim to rely on the Council’s internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on Internal Audit’s testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

We seek to place reliance on the work of Internal Audit wherever possible. We have liaised with Internal Audit and will commence our review and re-performance of their in February 2014.

There has been no change to the scope of our audit compared to previous audits.

1.2.2 Arrangements for securing economy, efficiency and effectiveness (value for money conclusion)

For 2013-14, the Audit Commission requires council auditors to give a value for money conclusion based on two specified criteria

Specified criteria for auditor’s conclusion

The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
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Focus of the criteria

The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.
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Auditors are required to determine a local programme of value for money audit work based on their value for money risk assessment, informed by these criteria and their responsibilities under the Code.

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

Our work will therefore focus on whether there are proper arrangements in place:

- ▶ To secure financial resilience
- ▶ To challenge how economy, efficiency and effectiveness in the use of resources is secured

We will meet our value for money duty by:

- ▶ Performing a risk assessment at the planning stage
- ▶ Reviewing arrangements for characteristics of proper arrangements for the criteria
- ▶ Performing any additional risk-based work necessary to discharge our value for money conclusion responsibilities
- ▶ Performing a risk assessment at the conclusion of the audit.

1.2.3 Certification work

Certification work is prescribed by the Audit Commission in certification instructions. We adopt a risk based approach and rely on internal controls, internal audit work and benefits staff testing to the fullest extent possible.

2. Financial statement risks

We outline below our assessment of the financial statement risks facing Cherwell District Council, identified through our knowledge of your operations and discussion with members and officers. We assess the impact on our audit approach and set out below the key areas of focus for our audit of the financial statements. A significant risk is an identified assessed risk of material misstatement that, in an auditor’s judgement, requires special audit consideration. We identified no significant risks and two financial statement risks.

Financial statement risks (including fraud risks)	Our audit approach
<p>Risk of misstatement due to fraud and error</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.</p> <p>As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk</p>	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks ▶ Understanding the oversight given by the Accounts, Audit and Risk Committee, as 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 <p>We will consider the results of the National Fraud Initiative and may make reference to it in our reporting</p>
<p>Payroll system</p> <p>The Council transferred its payroll system from Chris 21 to Resource Link as from 1 October 2013.</p> <p>The business case was to move to a common payroll system for both Cherwell and South Northamptonshire Council.</p> <p>Because Resource Link is already in place and operating in South Northamptonshire Council, the risks associated with the new system implementation are reduced as there are existing procedures and controls in place.</p> <p>However, there are inherent risks associated with the migration of data. The changeover needs to preserve the integrity of the data transferred to the new system to avoid errors and misclassifications of payroll costs.</p>	<p>We require assurances that the Council has managed the migration of data effectively and this has not given rise to a material misstatement in payroll costs. Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ The change over and implementation process ▶ The results of work by Internal Audit to test the accuracy and completeness of the data ▶ Post implementation review of the process ▶ Management review of payroll budgets.

3. Economy, efficiency and effectiveness (value for money conclusion)

Our initial work includes:

- ▶ Discussions with officers
- ▶ Discussions with Internal Audit
- ▶ Reviewing reports and minutes
- ▶ Reviewing the risk register
- ▶ Our financial statements audit planning
- ▶ Attending the Accounts, Audit and Risk Committee

At the date of this report we have identified one significant risk. This is a risk that would require specific risk-based work to ensure we can issue a safe value for money conclusion. We have identified the two further key areas that we will consider to support our value for money conclusion:

Significant risks	Impacts arrangements for securing:	Our audit approach
Capital Projects		
<p>The Council manages a substantial capital programme, planned at some £17m in 2013-14.</p> <p>Within the programme there are a number of large capital schemes, of which the Bicester Regeneration ranks as one of the most significant.</p> <p>It is a major initiative requiring a high level of skills and expertise. In recognition of this the Council has appointed a dedicated Director (Bicester).</p> <p>As well as being able to demonstrate that the deployment of capital resources secure value for money, the successful deliver of these key projects are essential for regeneration within the district and its economic recovery.</p> <p>Failure to deliver these projects on time and within budget risks the loss of economic benefit and a failure to secure value for money.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on reviewing:</p> <ul style="list-style-type: none"> ▶ The Council's arrangements for managing the capital programme ▶ The arrangements established to manage deliver of the Bicester Regeneration <p>We will also place reliance where possible on the work of Internal Audit; including the planned review of programme management.</p>

Other risks	Impacts arrangements for securing:	Our audit approach
<p>Financial resilience</p> <p>The Council has a good track record of financial management but its 2013-14 position is tight. At the end of quarter two, the Council projected a £330,000 overspend for the year mainly due to demand led service pressures and reduced recycling and commercial rent income.</p> <p>Management plans to address these pressures but to the extent they are not addressed, the Council will meet the overspend from reserves and balances.</p> <p>The Council's investment performance (some £68m as at 30 September 2013) is on target overall although externally managed investments are under-performing against budget. Only £150,000 of budgeted investment income is required for revenue purposes with £400,000 earmarked for capital projects</p> <p>We will continue to monitor the 2013-14 revenue position and review the year end outturn.</p> <p>In the ongoing economic climate and tighter local government financial settlement, the pressure of financial resources is increasing. The Council's budget strategy report to the Executive dated 7 October 2013 warned that the Council may therefore face difficult decisions in later years in order to sustain a balanced budget over the medium term.</p> <p>Medium term financial plans have identified the need for £4.8m of savings over the next 5 years in order to sustain a balanced budget. .</p> <p>At the date of this report the Council has not published its refreshed Medium Term Financial Strategy (MTFS) showing how it intends to bridge this funding gap although we understand that plans have been prepared.</p> <p>The Council should seek assurance that the delayed approval of the MTFS is not due to capacity constraints and ensure that its medium term financial plans are communicated as a priority.</p>	<p>Financial resilience</p>	<p>Our approach will focus on reviewing:</p> <ul style="list-style-type: none"> ▶ The achievement of the planned savings in 2013-14 ▶ The Council's medium term financial plans ▶ The impact of 2013-14 overspends on future financial plans ▶ The substance of savings plans <p>We will place reliance on the work of IA to gain assurances that budgetary control procedures are operating effectively</p>

Delivering services

Given the pressure on the Council's finances the delivery of value for money through its expenditure becomes ever more important.

In its business plan the Council has pledged to be an accessible, value for money authority and there is clear evidence that it is pursuing a range of initiatives and strategies designed to deliver its services more efficiently.

For example, the Council has produced a joint corporate procurement strategy in collaboration with neighbouring authorities to achieve savings in procurement costs. The strategy is seen by the Council as having a fundamental role in helping it reduce its services budget and protect front line services within the envelope of reduced government funding.

The Council is also expanding its collaborative working with other councils.

Maintaining service delivery and outcomes and doing more for less in the current financial climate presents a significant challenge.

Economy, efficiency and effectiveness
Financial resilience

Our approach will focus on:

- ▶ Reviewing the Audit Commission's VFM profiles to assess comparative performance in key service areas
- ▶ Assessing the extent to which the joint procurement programme is delivering outcomes as intended

We will place reliance on the IA review of performance management in coming to our conclusion.

4. Certification work

Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. Certification work is not an audit.

The work necessary varies according to the value of the claim or return and the requirements of the government department or grant-paying body. Broadly for claims and returns:

- ▶ Below £125,000 - we carry out no work
- ▶ From £125,000 and £500,000 – we undertake limited tests to agree form entries to underlying records, but do not test the expenditure or data is eligible
- ▶ Over £500,000 - we plan and perform our work following the certification instruction. We assess the control environment for preparing the claim or return and decide how much we can rely on the controls. Based on our assessment, we tailor our approach to agree form entries to underlying records and test the expenditure or data is eligible.

We are planning to carry out certification work for the:

- ▶ Housing benefit scheme – based on previous experience we expect to carry out limited extended testing known as 40+ testing.

Where possible we integrate our certification work with our opinion and other work. We also aim to rely on the work of internal audit and benefits staff where possible.

We will report to the Accounts, Audit and Risk Committee the results of our certification work.

The Audit Commission has set a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2011-12 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

The indicative fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

5. Our audit process and strategy

5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

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

We issue a two-part audit report covering both of these objectives.

5.1.1 Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Whole of Government Accounts return

5.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's 2013-14 corporate performance management and financial management arrangements we have regard to the criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

5.2 Audit process overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Review and re-performance of the work of Internal Audit
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts for pensions and property valuations
- ▶ Substantive tests of detail of transactions and amounts

Processes

Our assessment across the Council has identified the following key processes where we will seek to test key controls:

- ▶ Financial accounts closedown

- ▶ Accounts receivable
- ▶ Accounts payable
- ▶ Cash processing
- ▶ Payroll (and pensions)
- ▶ Parking income
- ▶ Council tax income
- ▶ Business rates income
- ▶ Housing benefits and council tax benefits

We will carry out substantive testing on property, plant and equipment, investments, and cash balances as the most efficient testing approach for these processes.

Financial closedown of accounts

The closedown of the Council's 2012/13 accounts was delivered successfully last year and we commended the Council's performance. We have discussed with the finance team how the process could be improved still further and this would include reducing the elapsed time between the initiation and completion of our audit work. This would enable us to conclude on our findings earlier and would benefit the Council as finance staff would be preoccupied on audit queries for a shorter time.

We will continue to liaise with your finance staff to identify better ways of working together. We will also seek to bring audit work forward as possible and to identify where substantive procedures can be carried out at the interim stage. Possible examples are early journal testing; testing of capital expenditure; substantive analytical review of key account lines at an interim point in the year.

5.2.1 Analytics

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

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ 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 Accounts, Audit and Risk Committee.

5.2.2 Internal Audit

We will review Internal Audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements or the value for money conclusion.

5.2.3 Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements.

5.2.4 Other procedures

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

Mandatory procedures required by auditing standards on:

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

Procedures required by the Code

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

5.3 Materiality

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

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.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are 'clearly trivial'. All uncorrected misstatements found above this level will be presented in our year-end report.

5.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Cherwell District Council is £68,803, together with an estimated fee of £13,400 for the certification of claims and returns.

5.5 Your audit team

The engagement team is led by Mick West who has significant public sector audit experience. Mick West replaces your previous engagement lead, Maria Grindley who stands down on rotation. Mick West is supported by Alastair Rankine who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Finance and Procurement.

5.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money conclusion work and the Whole of Government Accounts; and the deliverables we have agreed to provide through 2014. These dates are determined to ensure our alignment with the Audit Commission’s rolling calendar of deadlines.

We will provide a formal report to the Accounts, Audit and Risk Committee in June and September 2014 incorporating the outputs from the interim audit and our year-end procedures respectively. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Accounts, Audit and Risk Committee timetable	Deliverables
High level planning:	November-December 2013		
Risk assessment and setting of scopes	22 January 2014	Accounts, Audit and Risk Committee	Audit Plan
Testing of routine processes and controls	February - March		
	June	Accounts, Audit and Risk Committee	Interim results report
Year-end audit including WGA	July - September	Accounts, Audit and Risk Committee	Report to those charged with governance Auditor’s report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit report on the WGA Audit completion certificate
Reporting on the audit	October		Annual audit letter
Benefit claim	May – November		Certified claim
Reporting on certification work	December		Annual certification work report

6. Independence

6.1 Introduction

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

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us. ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review. ▶ The overall assessment of threats and safeguards. ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed. ▶ Details of non-audit services provided and the fees charged in relation thereto. ▶ Written confirmation that we are independent. ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy. ▶ 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.

6.2 Relationships, services and related threats and safeguards

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

6.2.1 Self-interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded for 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 for sales to you, in compliance with Ethical Standard 4.

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

6.2.2 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

6.2.3 Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report

6.2.4 Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

6.2.5 Overall Assessment

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

6.3 Other required communications

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm must publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

UK 2012 Transparency Report

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14 £'000	Actual Fee 2012-13 £'000
Total Audit Fee – Code work	68,603	68,603
Certification of claims and returns	13,400	19,800
Non-audit work		1,756

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

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We are able to place reliance, as planned, on the work of Internal Audit
- ▶ The level of risk in relation to the audit of the financial statements is consistent with that in the prior year
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our value for money conclusion will be based
- ▶ Our financial statements opinion and value for money conclusion are unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ An effective control environment is in place
- ▶ We have no significant issues to report to the NAO on Whole of Government Accounts
- ▶ The level of work required for certification work is the same as 2011-12

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

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

The fee for the certification of grant claims and returns is based on the indicative scale fee set by the Audit Commission. The Audit Commission has set a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2011-12 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

Appendix B UK required communications with those charged with governance

There are certain communications we must provide to the audit committee of audited clients. These are detailed here:

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

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance]</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Grant certification report</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Report to those charged with governance</p> <p>Grant certification report</p>

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