

Cherwell District Council

Year ending 31 March 2015

Audit Plan

25 March 2015



The Members of the Accounts, Audit and Risk Committee
Cherwell District Council
Bodicote House
Bodicote
Banbury OX15 4AA

25 March 2015

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Accounts, Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2014-15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Accounts, Audit and Risk Committee's service expectations.

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

We welcome the opportunity to discuss this plan with you on 25 March 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mick West
For and behalf of Ernst & Young LLP
Enc

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In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (‘Statement of responsibilities’). It is available from the Chief Executive of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Accounts, Audit and Risk Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

1.1 Context for the audit

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

- ▶ Our audit opinion on whether the financial statements of the Cherwell District Council's (the Council) give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.
- ▶ A statutory 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 it requires, on the Council's Whole of Government Accounts return.

The Audit Plan also outlines our planned work on the certification of the housing benefits subsidy claim.

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
- ▶ Management's views on all of the above.

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

1.2 Identified audit risks

We set out below the risks we have identified to the audit of the Council's financial statements and value for money conclusion.

Financial statements – significant risk

- ▶ Fraud and management over-ride risk - this is an inherent risk in all audits. For local authorities the risk arises due to the nature of local authority finances and ever increasing pressures on management to achieve financial targets.

Financial statements – other risks

- ▶ Group accounts – the Council is required to prepare group accounts for the first time this year. These accounts will be subject to audit.
- ▶ New general ledger – there is no direct impact on the 2014-15 closedown process as the new system is not introduced until 2015-16, but management needs to ensure that the existing system is fully supported until the conclusion of the audit.
- ▶ Treasury management – there are accounting implications associated with borrowing and funding of the Council's regeneration programme which will need to be considered.

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.

- ▶ Regeneration and the capital programme - as the Council takes on more and more complex regeneration and capital developments the greater is its exposure to the risk of things going wrong and the significance of the impact of any resulting failures.
- ▶ Expansion of joint working arrangements - the Council in partnership with South Northamptonshire and Stratford Councils is moving towards a confederation model of service delivery. This has inherent risks as well as opportunities.

In sections 3 and 4 of this plan, we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section 6.

We will provide an update to the Accounts, Audit and Risk Committee on the results of our work in these areas in our Audit Results Report, scheduled for delivery in September 2015.

1.3 Our process and strategy

Financial statement audit

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

We assess the controls in operation in each process affecting the financial statements and consider whether we will rely on internal controls. We currently expect to rely on controls over some of the Council's systems and to the fullest extent permissible by auditing standards, we will seek to rely on the work of Internal Audit wherever possible.

Mark Surridge is the new Manager on the audit, taking over from Alastair Rankine. Other key members of our audit team are Mick West (Director) and Chris Baston (Lead Executive).

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

Arrangements for securing economy, efficiency and effectiveness – value for money conclusion

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

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

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

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

Certification work

We certify the Council's housing benefits subsidy claim using the Audit Commission's certification arrangements.

2. The Local Audit and Accountability Act 2014

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

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

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

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussions with those charged with governance 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 other than the general risk of management override. There is one presumed significant risk which is applicable to all audits under international auditing standards.

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

Significant risks (including fraud risks)	Our audit approach
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewing accounting estimates for evidence of management bias. ▶ Evaluating the business rationale for significant unusual transactions.
Other financial statement risks	Our audit approach
<p>Group accounts</p> <p>The Council will perform the function of a strategic developer for the Graven Hill project through a 100% owned Company Limited by Share (Graven Hill Development Company).</p> <p>The Company is a separate legal entity and will be required to prepare its own single entity accounts, which will be subject to audit in their own right. Although transactions in 2014-15 will be limited to acquisition costs and other incidental expenditure, these costs are likely to be above the threshold requiring consolidation in the controlling entities accounts.</p> <p>This means that for the first time in 2014-15 the Council will be required to prepare group accounts to incorporate the financial results of the Company.</p>	<ul style="list-style-type: none"> ▶ We will develop appropriate audit procedures to enable us to form our opinion on the group accounts. This will include an assessment of the inherent risk of a new subsidiary, the nature, value and volume of transactions (including consolidation adjustments) and the work of the Company's accountant and auditor. ▶ The cost of the additional audit work is not covered by the Audit Commission's scale fee and will be subject to a scale fee variation.

Other financial statement risks not directly impacting 2014-15, but to be kept under review

Our audit approach

New general ledger system	Our audit approach
<p>The Council will be changing its general ledger provider with the new system becoming live during the 2015-16 financial period.</p> <p>We do not expect this to have a direct impact on the closedown of the 2014-15 accounts as the existing system will be used for the production of the accounts and will be maintained until completion of the audit.</p> <p>However, running the two systems in tandem could create operational difficulties and management will need to ensure that support for the existing system is preserved notwithstanding the changeover to the new system.</p>	<ul style="list-style-type: none"> ▶ No substantive work is proposed in 2014-15, although we shall maintain a watching brief over developments. ▶ When the new ledger is implemented, we will consider the adequacy of controls to manage the change-over and implementation process.
Treasury management	
<p>The Council for the first time in many years are contemplating going to the market to raise funds. This constitutes a significant shift in the Council's treasury management strategy. The Council is guided in this by its revised Treasury Management Strategy which provides the regulatory framework and by expert advice from its fund manager Capita.</p> <p>However, the composition of the Council's balance sheet could change as different funding vehicles are created. There is also potential for the receipt of specific government grant funding linked to the Council's regeneration agenda which also has accounting implications.</p>	<ul style="list-style-type: none"> ▶ Maintain oversight of developments; ensure Council decisions on borrowing are consistent with the prudential code and its own financial procedures. ▶ Review accounting treatment on government grants.

3.1 Respective responsibilities in relation to fraud and error

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

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

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

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

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

4. Economy, efficiency and effectiveness

Our approach to the value for money conclusion for is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

- ▶ Financial resilience
- ▶ Economy, efficiency and effectiveness in the use of resources

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

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

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

At this stage we have not identified any significant risks. However, we have identified the following key areas that we will consider to support our value for money conclusion. We acknowledge the Council operates in a context of increasing financial pressure.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Other areas of focus	Impacts arrangements for securing:	Our audit approach
Financial resilience		
<p>The Council has a good track record of financial management but its 2014-15 position is tight. At quarter three, the Council is projecting a net £327,000 surplus for the year. There are significant pressures within this; albeit offset by increased income but the overall prospects of spending within the 2014-15 budget are good.</p> <p>We will continue to monitor the 2014-15 revenue position and review the year end outturn.</p> <p>For 2015-16 the Council has narrowed the gap as per its initial budget (£186,000) and the current iteration of the budget shows a surplus of £6,000. This signals good progress but in so doing the Council has exhausted many of the options available to it making balancing the budget without recourse to reserves more difficult.</p> <p>We recognise that achieving sustained financial balance over the medium term is a top priority for the Council but also a significant challenge.</p>	Financial resilience	<p>Our approach will focus on reviewing:</p> <ul style="list-style-type: none"> ▶ The achievement of the planned savings in 2014-15 ▶ The Council's medium term financial plans ▶ We will place reliance on the work of Internal Audit to gain assurances that budgetary control procedures are operating effectively

Other areas of focus	Impacts arrangements for securing:	Our audit approach
Managing the regeneration agenda – governance		
<p>As the Council takes on more and more complex regeneration and capital developments the greater is its exposure to the risk of things going wrong and the significance of the impact of any resulting failures.</p> <p>As part of our 2013-14 audit we reviewed the early stages of the Graven Hill project; and Internal Audit has completed further work to review arrangements and the business case. Current audit assessment is positive. However, as developments continue the more conventional models of working and relationships are changing and risks and returns are being spread more widely through the public and private sector stakeholders.</p> <p>We have identified the following as being critical to the success of the Council's regeneration plans:</p> <ul style="list-style-type: none"> ▶ Risk management ▶ Financial governance ▶ Project management <p>The Council needs to ensure that adequate arrangements are established and firmly embedded</p>	<p>Financial resilience Economy; efficiency and effectiveness</p>	<ul style="list-style-type: none"> ▶ We will seek assurances from management that adequate governance arrangements are in place to support the Council's regeneration agenda.
Expansion of joint working arrangements		
<p>The Council in partnership with South Northamptonshire and Stratford Councils is pursuing an ambitious programme of collaborative working. Shared services already exist in a number of areas and these are largely working effectively.</p> <p>However, the Council's transformational programme is gathering momentum and the Council and its partners are proposing to establish a confederation model (initially with three partners) for the provision of services through a Council controlled company.</p> <p>In our value for money conclusion work last year we reviewed the Council's transformational plans and reported positively on the general approach.</p> <p>However, the pace of change is rapid and management has prepared a full business case for the consideration of all Councils to move to a confederation model. The report and business case were considered by members of the Executive at their meeting on the 15 December 2014.</p>	<p>Economy; efficiency and effectiveness</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing the Council's business case and subsequent developments ▶ considering any internal and external reviews undertaken (for example, the Internal Audit review in the 2014-15 plan)

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

5. Certification work for housing benefits

Certification work involves executing prescribed tests which are designed to give reasonable assurance that the Council's housing benefits claim is fairly stated and in accordance with specified terms and conditions. Certification work is not an audit.

The work necessary is determined by the Department of Works and Pensions.

Based on previous experience we expect to carry out limited extended testing, known as 40+ testing.

Where possible we integrate our benefits 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 benefits certification work.

The Audit Commission has set an indicative fee for benefits certification work for each body. The indicative fee is based on actual benefits certification fee for 2012-13.

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

6. Our audit process and strategy

6.1 Objective and scope of our audit

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

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

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

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

i) Financial statement audit

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

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form it requires.

ii) Arrangements for securing economy, efficiency and effectiveness

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

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

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

6.2 Audit process overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations
- ▶ Substantive tests of detail of transactions and amounts.

Processes

Our initial assessment has identified the following key processes where we will seek to test the Council's key financial controls:

- ▶ Financial accounts closedown
- ▶ Council tax income
- ▶ Business rates income
- ▶ Housing benefit and council tax reduction.

Analytics

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

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

Internal Audit

We will work collaboratively with Internal Audit to ensure you receive maximum value from your assurance providers. We will discuss and review the Internal Audit Plan and the results of its work to understand the impact on our audit approach.

Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions and valuations.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section 3, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error
- ▶ Significant disclosures included in the financial statements
- ▶ Entity-wide controls
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- ▶ 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 examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements

6.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements audit is £1.6m, based on 2% of gross expenditure.

We will communicate uncorrected audit misstatements greater than £78,000 to you.

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

6.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The scale fee for the audit is £69,503, together with an estimated fee of £16,660 for the certification of the housing benefits subsidy claim.

We have requested an increase to the scale fee to cover the work required for the Council's group accounts. We will inform the Audit Committee of the variation once agreed by the Audit Commission.

6.5 Your audit team

The engagement team is led by Mick West who has significant public sector audit experience. Mick West is supported by Mark SurrIDGE and Chris Baston who are responsible for the day-to-day direction of audit work, and who are the key point of contact for the Head of Finance and Procurement.

6.6 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 work and the work on the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Accounts, Audit and Risk Committee's cycle in 2014 and 2015. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

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

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

Audit phase	Timetable	Accounts, Audit and Risk Committee timetable	Deliverables
High level planning:	November - December 2014		
Risk assessment and setting of scopes	January 2015	26 March 2015	Audit Plan
Testing of routine processes and controls	February - March		
	June	24 June 2015	Interim results report
Year-end audit including WGA	July - September	23 September 2015	Audit Results Report to those charged with governance Auditor's report (including our opinion on the financial statements and value for money conclusion) Audit report on the WGA Audit completion certificate
Reporting on the audit	October	2 December 2015	Annual audit letter
Benefit claim	May - November		Certified claim
Reporting on certification work	December	20 January 2016	Annual certification work report

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

7. Independence

7.1 Introduction

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

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us ▶ 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

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

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

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

7.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

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

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

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

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

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

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

Other threats

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

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

Overall Assessment

We confirm that EY is independent and the objectivity and independence of Mick West, the audit engagement Director and the audit engagement team have not been compromised.

7.3 Other required communications

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

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

www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014

Appendix A Fees

A breakdown of our agreed fees is shown below. We have set the planned Code fee at the Audit Commission scale fee; and the certification fee at the Audit Commission indicative scale fee.

	Planned Fee 2014-15 £	Actual fee 2013-14 £	Scale fee 2013-14 £	Notes
Code work	69,503	69,503	68,603	We are in the process of agreeing a variation to the 2014-15 audit fee to cover the additional work required for the Council's group accounts.
Certification of housing benefits subsidy claim	16,660	13,400	13,400	
Non-audit work				No additional work is planned

All fees exclude VAT.

The agreed fees presented above are based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ There are no significant deficiencies in the operating effectiveness of the internal controls for key processes
- ▶ The Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based
- ▶ Our accounts opinion and value for money conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the Council and queries raised are answered promptly and effectively
- ▶ The Council has an effective overall control environment.

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

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to those charged with governance, the Accounts, Audit and Risk Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Misstatements</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ enquiries of the Accounts, Audit and Risk 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 	<p>▶ Report to those charged with governance</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 	<p>▶ Report to those charged with governance</p>
<p>External confirmations</p> <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 	<p>▶ Report to those charged with governance</p>

Required communication	Reference
<p>Consideration of laws and regulations</p> <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 Accounts, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Risk Committee may be aware of 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 director'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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary

Required communication	Reference
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<p>Audit Plan</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

Appendix C Detailed Scopes

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

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ Full scope: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the EY audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support the consolidated audit).
- ▶ Specific scope: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the EY audit team.
- ▶ Limited Scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

For the first time in 2014-15 the Council will be required to prepare group accounts to incorporate the financial results of Graven Hill Development Company, a 100% owned company limited by share. We are currently in discussions with officers to determine the extent of work required to obtain the necessary assurance over the group accounts.

Based on the information provided to date, we expect that we will carry out limited scope procedures on the subsidiary. We will, however, keep this under review as, at the time of preparing this plan:

- ▶ The accounting basis for the subsidiary has not yet been agreed - ie whether the subsidiary's accounts will be based on UK GAAP or International Financial Reporting Standards.
- ▶ We have not yet reviewed any aspects of the Company's financial affairs and are not yet in a position where we are able to confirm the complexity and materiality of the transactions incurred in 2014-15.
- ▶ We understand accountants have been appointed to the Company; however, we are not yet certain whether the Company's accounts will also be audited by them.

We are in continuing dialogue with the Council on this matter and will update the Accounts, Audit and Risk Committee at the earliest opportunity on the nature, timing and extent of our group audit procedures.

Appendix D CV of your new audit manager



Mark Surridge
Audit Senior Manager
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M: 07875 974 291

Role

Mark will be responsible for the day to day delivery of our audit work with you. He will oversee the delivery of our team on site and be responsible for ensuring the quality of the work delivered. Alongside Mick and Chris, Mark will also be an initial liaison point for discussions with you on the progress of the audit.

Skills and experience

- ▶ Mark specialises in public sector external audit in local government, health and not for profit sectors. He joined EY in January 2015.
- ▶ With 15 years' experience of working in this sector, he has substantial project management skills to meet tight deadlines and respond to client needs.
- ▶ Mark has delivered a range of audit, assurance and advisory projects to local authorities and is able to demonstrate a detailed working knowledge of the key challenges facing the sector.
- ▶ Mark also has substantial experience in working with local authorities that have extensive joint working, including shared management teams and multiple shared services.
- ▶ He has carried out assurance based reviews over the medium and long-term financial plans for various bodies. Most recently, he developed a financial costing model to support the merger of two public sector organisations and a business plan for a local authority subsidiary, which included a business valuation and exit plan to support the sale of the business to the private sector.
- ▶ His breadth and depth of experience provides a balanced and commercial insight into the organisations he works with, providing true added value through regular interaction with his clients.
- ▶ Mark has a number of published articles and thought-leadership documents to demonstrate expertise in corporate governance advisory work, including board governance, financial governance and audit committee effectiveness.
- ▶ Mark also spent two years working for one of the world's largest drinks manufacturers where he led operational and financial reviews designed to identify efficiencies. He then became the Commercial Finance Manager for the Group's Asia operations, where he led the company's first review of its China operations.

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