

Melton Borough Council

Year ending 31 March 2016

Audit Plan

21 January 2016

Ernst & Young LLP



Private and confidential

Members of the Governance Committee
Melton Borough Council
Parkside
Station Approach
Burton Street
Melton Mowbray
Leicestershire
LE13 1GH

21 January 2016

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Governance Committee. The purpose of this report is provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit, in accordance with the requirements the Local Audit and Accountability Act 2014, the National Audit Office Code of Audit Practice (the Code), standing guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 1 February 2016 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark
Partner
For and behalf of Ernst & Young LLP

Enclosures

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Governance 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

Introduction to External Audit

An external audit is an independent examination of the financial statements prepared by the Council. It is conducted as a requirement of the Local Audit and Accountability Act 2014.

The role of the external auditor comprises a mandated element:

- ▶ Form an opinion on the truth and fairness of the financial statements
- ▶ Form a conclusion on the Council's Arrangements for securing economy, efficiency and effectiveness
- ▶ Review the Annual Governance Statement (AGS) to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to the external auditor from the audit work.
- ▶ Examine the Whole of Government Accounts (WGA) schedules submitted to the Department for Communities and Local Government and form an opinion as to whether they are consistent with the Statement of Accounts.

And extends to other powers conferred on the external auditor by legislation, including:

- ▶ Issue of Public Interest Reports
- ▶ Opportunity for electors to raise questions on accounts. Auditor consider and decide upon objections from electors
- ▶ Power to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful
- ▶ Power to apply for judicial review with respect to a decision of an audited body

In order to form an opinion on the truth and fairness of the financial statements, the external audit process involves gathering evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements:

- ▶ Are free from material misstatement, whether caused by fraud or error
- ▶ Comply with all statutory requirements
- ▶ Comply with all relevant requirements for accounting presentation and disclosure.

External auditors are able to perform additional services for the Council if requested, but in all instances both parties must have consideration for any potential impact on the independence of the external auditor and additional fee payable by the Council.

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 Melton Borough Council (the Council) give a true and fair view of the financial position as at 31 March 2016 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 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:

- ▶ The Council's objectives and strategies and the related business and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting, auditing and corporate governance standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the Council's operating and the wider regulatory environment.
- ▶ Matters that management or the Governance Committee consider significant in relation to the financial statements and that they have requested we pay particular attention to.

By considering these inputs, our audit is focused on the areas that matter and by focusing on the areas that matter, our feedback is more likely to be relevant to the business.

Key audit influences

The audit is an iterative process and as we progress our work, we may need to refine our approach.

Our work to date, which informs the content of this report, has consisted of:

- ▶ Initial planning discussions with members of the finance team
- ▶ Attendance at Governance Committee
- ▶ Review of PWC Report to Those Charged with Governance for 2014-2015 and other core documents
- ▶ Review of predecessor audit files in respect of the 2014-2015 external audit
- ▶ The results of our planning procedures for the 2015-2016 external audit

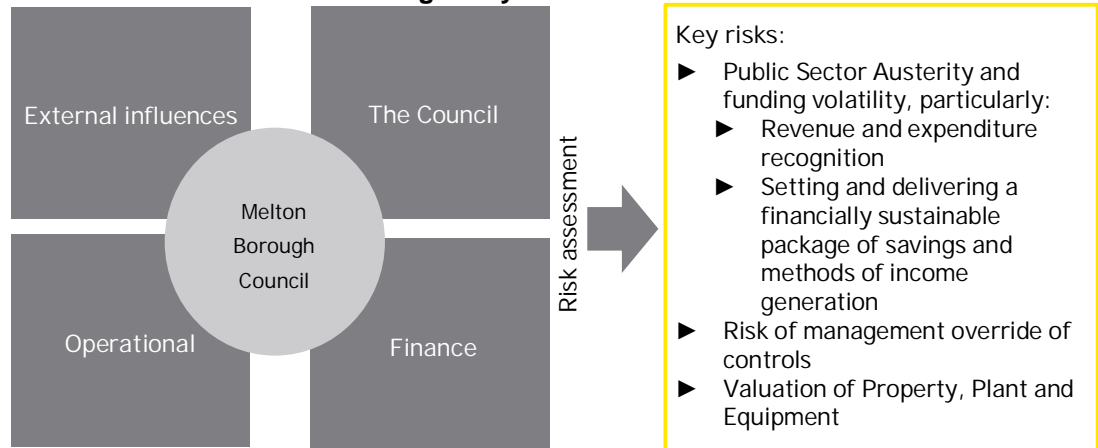
In parts three to six of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

Our interim work is planned to take place in February 2016 and should this result in any significant changes to this audit plan, these changes will be reported back to the Governance Committee at the earliest opportunity.

We will provide an update to the Governance Committee on the results of our work in our report to those charged with governance scheduled for delivery in September 2016.

Our audit process and strategy

Financial statement audit and regularity 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 will review the work of Internal Audit to support our understanding of the Council's control environment and to evaluate the impact on our own risk assessment. We will assess the controls in operation in each process affecting the financial statements and consider whether we will rely on internal controls.

Arrangements for securing economy, efficiency and effectiveness

The National Audit Office has consulted on the audit approach for the Value for Money (VFM) conclusion. As a result, there has been a change effective from 2015/16:

	Previously	Revised from 2015/16
Overall conclusion	In all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.	In all significant respects, the Council 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 defined by statutory guidance	<ul style="list-style-type: none"> ▶ Securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. ▶ Challenging economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. 	<ul style="list-style-type: none"> ▶ Take informed decisions. ▶ Deploy resources in a sustainable manner. ▶ Work with partners and other third parties.

We expect to be able to 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.

Certification work

We certify the Council's annual housing benefits subsidy claim using the PSAA's certification arrangements.

2. Key audit influences

Risk assessment

We analyse the risks inherent in your external environment, the key strategic, operational and financial risks for the Council and our knowledge of other factors that may impact the Council's financial statements. The output of this analysis is then mapped to the financial statements and this risk assessment process informs where we will focus our audit work for the year ended 31 March 2016.

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

<p style="text-align: center;">External influences</p> <p>2015/16 saw significant funding reductions for local government. The spending review in November 2015 confirmed further significant reductions in the local government funding settlement for 2016/17, with the aim that all local authorities will become self-funded by the end of parliament through retention of council tax and business rates rather than rely on funding from central government.</p>	<p style="text-align: center;">The Council</p> <p>The Council's Corporate Plan sets out its priorities, goals and promises for 2015-2020 under the headings of:</p> <ul style="list-style-type: none">▶ Place▶ People▶ Agile Council <p>Steps have been taken towards achieving these goals in 2015/16, including investment in the Leisure Vision project.</p>
<p style="text-align: center;">Operational</p> <p>Corporate objectives are set using feedback from the Council's various consultation mechanisms and feed down through to service plans and individual performance appraisals, aligning Council activities with corporate objectives.</p> <p>Most of the Council's functions are carried out by its Committees. These Committees form part of the decision-making framework of the Council. Each Committee has its own delegations and functions and monitors performance by way of key performance indicators.</p>	<p style="text-align: center;">Finance</p> <p>The Council is currently in a good financial position with high levels of useable reserves and significant cash balances. Finance reports at December 2015 estimate a small surplus will be achieved for the full 15-16 financial year.</p>

This risk assessment process will help inform the focus our audit work for the year ending 31 March 2016.

3. Financial Statement Risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Valuation of Property, Plant & Equipment	
<p>Property, plant and equipment is the largest balance on the Council's balance sheet and valuation of the balance is based on assumptions and judgement.</p> <p>External audits performed in previous years have highlighted valuation errors and internal control weaknesses which lead us to consider there to be an increased risk that this balance could contain a material misstatement.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ review the basis of asset revaluations undertaken and in doing so consider: <ul style="list-style-type: none"> ▶ the judgements, assumptions and data used; ▶ the reasonableness of estimation techniques applied; and ▶ the expertise of your valuation experts. ▶ review the accounting entries made to recognise the valuation changes in the accounts. ▶ make use of our valuation experts as appropriate.
Risk of fraud in revenue and expenditure recognition*	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <ul style="list-style-type: none"> ▶ For Melton Borough Council we consider that this risk presents itself in the fees, charges and other service income. <p>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.</p> <ul style="list-style-type: none"> ▶ For Melton Borough Council we consider that this risk presents itself in 'other service expenses' 	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Perform unrecorded liabilities testing ▶ Review and test revenue and expenditure cut-off at the period end date to ensure transactions have been recorded in the appropriate accounting period
Risk of management override*	
<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>For Melton Borough Council we consider that this risk presents itself in</p> <ul style="list-style-type: none"> ▶ the risk of inappropriate capitalisation of revenue expenditure ▶ the determination of accounting estimates ▶ the posting of manual journals to the general ledger 	<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 (for example, pension scheme assumptions, valuation and impairment assumptions) ▶ Evaluating the business rationale for significant unusual transactions

*As defined by auditing standards

Other financial statement risks

Pensions liability

Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.

The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.

Our approach will focus on:

- ▶ Reviewing the output of the report from the Council's actuary
 - ▶ Reviewing the assumptions used by the actuary to determine whether they are in our expected range
 - ▶ Testing the journal entries for the pensions transactions to check that they have been accurately processed in the accounts
-

4. 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, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

5. Economy, efficiency and effectiveness

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.

For 2015/16 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 local authority reporting guidance on governance statements responsibilities published by CIPFA to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

At the time of writing we do not consider there to be any significant risks present in respect of our value for money conclusion, but we will continually revisit this assessment throughout the audit process.

6. Our audit process and strategy

Objective and scope of our audit

Under the National Audit Office'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 issue a two-part audit report covering both of these objectives.

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

Audit process overview

Processes

A key consideration in our audit planning process is the effectiveness of entity level controls; including the extent to which the Council assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented.

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 Governance Committee.

Internal audit

We will review Internal Audit plans and the results of its work, and consider the implications for our external audit and respond accordingly.

Use of experts

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
Pensions	EY pensions team
Property, Plant and Equipment	Melton Borough Council's appointed valuer EY Valuations team

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 environment 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 expert 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.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, 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; and
- ▶ Auditor independence.

Procedures required by the Code

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

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 will communicate our materiality level to you after we have completed our interim procedures in March 2016.

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.

Fees

The duty to prescribe scales of fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. In law, audit fees are not a fee for audit services, but a charge to fund operating costs, out of which the costs of audits are met (<http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/>).

PSAA has published a scale fee for all authorities. The indicative scale fee for the audit of Melton Borough Council is £43,169 and the assumptions underpinning the fee are set out in Appendix A. If any of the assumptions prove to be unfounded, we will seek a variation to the agreed fee and this will be discussed with the Council in advance.

Your audit team

The engagement team is led by Steve Clark, who has significant experience of local authority audits. Steve is supported by Helen Henshaw, a Senior Manager who will be responsible for the day-to-day direction of our audit and the key point of contact for the Chief Finance Officer.

Our audit team also includes a number of specialists to assist us with our procedures, including specialists in valuations, pensions, taxation and IT. Where appropriate we will also leverage wider expertise from within the firm. For example: we have a firm wide local authority audit network to share best practice, identify common issues and to develop a consistent audit approach.

Timetable of communication and deliverables

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance Committee's cycle in 2015/16 and 2016/17.

From time to time matters may arise that require immediate communication with the Governance 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	Governance committee timetable	Deliverables
High level planning	January 2016	February 2016	▶ Audit Plan
Risk assessment and interim testing of routine processes and controls	February 2016		
Year-end audit	August 2016		
Completion of audit	August 2016	September 2016	<ul style="list-style-type: none"> ▶ Report to those charged with governance via the Audit Results Report ▶ Audit report (including our opinion on the financial statements and overall value for money conclusion). ▶ Audit completion certificate ▶ Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	November 2016	▶ Annual Audit Letter
Benefit claim	May – November 2016		▶ Certified claim
Reporting on certification work	December 2016	January 2017	▶ 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. Certification work for housing benefits

Certification work involves executing prescribed tests which are designed to give reasonable assurance that the Council's annual housing benefits subsidy 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.

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 Governance Committee the results of our benefits certification work.

Public Sector Audit Appointments set an indicative fee for benefits certification work for each body. 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.

The indicative fee for Melton Borough Council is £14,729.

8. Independence

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

- ▶ 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.

Final stage

- ▶ 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 PSAA's Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and
- ▶ 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.

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 PSAA Terms of Appointment.

At the time of writing, there are no non-audit fees.

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

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 Steve Clark, the audit engagement Partner and the audit engagement team have not been compromised.

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 June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	43,169	43,169	57,558	
Total Audit Fee – Code work	43,169	43,169	57,558	
Certification of claims and returns ¹	14,729	14,729	Not yet reported	
Non-audit work	nil	nil	18,000	In 2014/15 PWC performed: <ul style="list-style-type: none"> - a review of the Authority's creditors and payments systems. The fee for this work was £15,000; and - a certification review of the Authority's application for Backlog funding to the Homes and Communities Agency. The fee for this work was £3,000.

All fees exclude VAT.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Good quality early drafts of the Council's Annual Governance Statement and Financial Statements are available for us to review.
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of supporting documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

Appendix B Required communications with those charged with governance

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	<ul style="list-style-type: none"> ▶ Audit Plan
<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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the 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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance ▶ Letter to Governance Committee Chair
<p>Related parties 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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 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 Governance Committee may be aware of 	<ul style="list-style-type: none"> ▶ 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 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
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification ▶ Annual Audit Letter if considered necessary]

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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