

## Merton Council

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better  
working world

Standards and General Purposes Committee  
Merton Council  
Civic Centre  
London Road  
Morden  
SM4 5DX

22 February 2017

Dear Committee Members

## **2016/17 Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Standards and General Purposes Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will present you with an update of progress on our Audit Plan at a subsequent meeting and after our early interim work has been performed.

We welcome the opportunity to discuss this plan with you on 9 March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Executive Director

*For and behalf of Ernst & Young LLP*  
*Enc*

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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 ([www.psa.co.uk](http://www.psa.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 Audit 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

## 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 Merton Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

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

In parts two and three 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 four.

We will provide an update to the Standards and General Purposes Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

## 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.

To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible.

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

### **Arrangements for securing economy, efficiency and effectiveness**

Our approach to the value for money (VFM) conclusion for Merton Council for 2016/17 is based on the approach specified by the NAO. For 2016/17 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”*

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.

We consider that the only significant risk to reaching our conclusion on arrangements to secure VFM is the Council continuing to develop arrangements to address budget pressures in adult social care and secure financial balance over the medium term.

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

## 2. 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. We will report back to the Committee where our risk assessment changes during the year.

Significant risks (including fraud risks)	Our audit approach
<p><b>Risk of management override</b></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.</p> <p>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"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>▶ Reviewing accounting estimates for evidence of management bias.</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> <li>▶ Evaluating the rationale for any changes in accounting policy.</li> </ul>
<p><b>New general ledger implementation</b></p> <p>The Council introduced its new E5 general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Council's 2016/17 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.</p> <p>To ensure the Council prepares materially accurate and complete 2016/17 financial statements it is essential that the Council is assured that it has migrated all financial data to its new general ledger.</p>	<p>We will review the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This will include reviewing the effectiveness of the reconciliation processes.</p> <p>Where we judge we are able to do so we will seek to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.</p> <p>If we are unable to gain sufficient assurance that the Council has migrated all the relevant data completely and accurately we may be required to undertake additional audit procedures, necessitating an additional audit fee. We will engage early with the Director of Corporate Services if this situation arises and report back to the Committee.</p>
<p><b>Other financial statement risks</b></p>	<p><b>Our audit approach</b></p>
<p><b>Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement</b></p>	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which change the way the financial statements are presented.</p> <p>The new reporting requirements impact on both the Comprehensive Income and Expenditure Statement (CIES) and the</p>	<p>The Council has already undertaken this restatement exercise which we plan to review as part of our interim visit. Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code.</li> </ul>

Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note.

The Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice (SeRCOP). Instead the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

- ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreeing restated comparative figures back to the Council's segmental analysis and supporting working papers.

### Valuation and impairment of property, plant and equipment and investment property

Property, Plant and Equipment (PPE) represents the largest asset value on the Council's balance sheet.

PPE is initially measured at cost and then revalued to fair value, determined by the amount that would be paid for the asset in its existing use, on a 5 year rolling basis. The Council relies on its professional valuer using a number of complex assumptions.

Annually assets are assessed to identify whether there is any indication of impairment.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.

Our approach will focus on:

- ▶ Considering, for revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances change.
- ▶ The valuation expertise used by the Council.
- ▶ The reasonableness of the estimations and judgements used.

### Pensions Accounting

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement.

The Pension liability is the largest balance on the balance sheet and inherently represents a risk of material misstatement.

Our approach will focus on:

- ▶ The expertise of the Actuary used by the Council,
- ▶ The completeness and accuracy of the data provided by the Council to the Actuary.
- ▶ The reasonableness of the estimations and judgements used by the Actuary.

### **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 fraud risks.



### 3. Economy, efficiency and effectiveness

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

For 2016/17 this is based on the overall evaluation criterion:

*“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

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

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

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public.”*

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

**Significant value for money risk**

**Our audit approach**

**Failure to address adult social care budget pressures and deliver medium term financial balance**

In common with many other councils Merton continues to face a highly challenging financial outlook. The annual budget gap net of planned savings and growth over the four years forecast in the Council's updated medium term financial strategy (MTFS) rises from a balanced position in 2017/18, to approximately £18 million in 2020/21.

The main budgetary pressure continues to be current and forecast future growth in adult social care spending. The latest forecast for the directorate is a £9 million overspend in 2016/17 leading to a forecast current year net overspend for the Council of approximately £6 million. The Council is therefore likely to call on reserves to a greater extent than budgeted for in the previous MTFS.

Our approach will focus on reviewing the robustness of the Council's plans and arrangements to address budget pressures in adult social care and deliver sustainable financial balance over the medium term.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

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

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue 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 report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- ▶ give a separate opinion on the part of the Council's financial statements that relates to the accounts of the pension fund.

#### ii Arrangements for securing economy, efficiency and effectiveness

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### 4.2 Audit process overview

#### Processes

Our initial assessment of the key processes across the Council has identified that we will seek to test key controls, both manual and IT within the payroll key process. We have also identified the following key processes that we will walkthrough and test substantively:

- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Business rates
- ▶ Council tax
- ▶ Housing benefits
- ▶ Cash and bank
- ▶ Pensions
- ▶ Schools
- ▶ Social care
- ▶ Property, plant and equipment
- ▶ Treasury Management

We also review your procedures to close the ledger and produce the financial statements.

**Analytics**

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

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and General Purposes Committee.

**Internal audit**

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our final reporting where we raise issues that could have an impact on the year-end financial statements. Where relevant, we will seek to use the work of internal audit if they have covered the key controls we wish to test in the Council’s key processes outlined above, or any relevant work on general ledger migration.

**Use of specialists**

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment	Council valuer and EY valuations team
Pensions	Pension fund’s actuary and EY pensions team
National Non-Domestic Rates – provision for the cost of appeals	Council commissioned external expert

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.

### 4.3 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.

#### ***Procedures required by standards***

- ▶ addressing the risk of fraud and error;
- ▶ reviewing significant disclosures included in the financial statements;
- ▶ reviewing 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
- ▶ considering and reporting on 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; and
- ▶ 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.

### 4.4 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 initially determined that overall materiality for the financial statements of the Council is approximately £10.25 million based on 2% of gross expenditure on services. We will communicate uncorrected audit misstatements greater than £512,000 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.

### 4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the Council is £143,498.

We have outlined in Section 2 risks to the financial statements that may require us to carry out additional audit procedures. Where this arises we will engage early with the Director of

Corporate Services to discuss the extent of the additional procedures and the potential impact on the audit fee. We will report the outcome of this engagement to the Committee.

## 4.6 Your audit team

We have made a change to your audit team. Suresh Patel, an Executive Director with significant experience of auditing local authorities and London Borough councils will lead the engagement. He is supported by Simon Mathers, your Senior Manager from the prior year. Simon also has significant experience of auditing local councils and is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

## 4.7 Timetable of communication, deliverables and insights

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 Standards and General Purposes Committee's cycle in 2016/17. These dates are determined to ensure our alignment with the PSAA rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Standards and General Purposes 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	Standards and General Purposes Committee timetable	Deliverables
High level planning	<b>December 2016</b>	Delivered	Audit Fee Letter
Risk assessment and setting of scopes	<b>December-February 2017</b>	9 March 2017	Audit Plan
Testing routine processes and controls	<b>February - March 2017</b>	29 June 2017	Progress Report
Year-end audit	<b>July-August 2017</b>		
Completion of audit and Conclusion of reporting	<b>August 2017</b>	7 September 2017	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.
Completion of audit and Conclusion of reporting	<b>September 2017</b>	7 November 2017	Annual Audit Letter

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

## 5. Independence

### 5.1 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.

<b>Required communications</b>	
<b>Planning stage</b>	<b>Final stage</b>
<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review.</li> <li>▶ The overall assessment of threats and safeguards.</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto.</li> <li>▶ Written confirmation that we are independent.</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy.</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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.

### 5.2 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 PSAA Terms of Appointment. At the time of writing, there are no agreed non-audit fees for 2016/17. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to 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. Should the Council engage us again to audit its 2016/17 Teachers' Pensions return we will assess our ability to undertake the work against the requirements of Ethical Standards.

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 Suresh Patel, the Executive Director and the audit engagement team have not been compromised.

## **5.3 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 June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>



## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
<b>Total Audit Fee – Code work</b>	<b>143,498</b>	<b>143,498</b>	<b>143,498</b>
Certification of claims and returns	28,320	28,320	41,242
Non-audit work – Teachers’ Pensions	8,500*	N/A	8,500

*All fees exclude VAT.*

\* *Subject to confirmation of 2016/17 work*

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

- ▶ officers meet the agreed timetable of deliverables;
- ▶ the internal controls operate effectively for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance. In addition, if we are required to undertake additional audit procedures in response to the risks identified in Section 2, we will discuss in advance with the Council any potential impact on the fee.

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 the Standards and General Purposes Committee. These are detailed here:

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

Required communication	Reference
<p><b>Independence</b></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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Going concern</b></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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <p>Summary of certification work undertaken</p>	<ul style="list-style-type: none"> <li>▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</li> </ul>

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