

CAMBRIDGE CITY COUNCIL

REPORT OF: Head Of Finance

TO: Civic Affairs Committee

15/02/2017

WARDS: None directly affected

EXTERNAL AUDIT 2016/17 AUDIT PLAN

1 INTRODUCTION

- 1.1 The attached Audit Plan (Appendix 1) from Ernst & Young (EY) summarises their approach to the audit of the financial statements and the value for money (VFM) conclusion for 2016/17.
- 1.2 The Plan also highlights what EY consider to be the most significant audit risks.
- 1.3 EY staff will be available to discuss their report and answer any detailed questions arising from it.

2. RECOMMENDATIONS

- 2.1 That the contents of the external audit plan are noted.

3. BACKGROUND

- 3.1 In line with the National Audit Office Code of Audit Practice, Ernst & Young are required 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 of Audit Practice. (The "Value for Money" (VFM) conclusion)
- 3.2 The attached audit plan details the approach that EY will use in relation to the 2016/17 audit. It specifies the work they will undertake, when they anticipate undertaking this work and how they

will report their findings. It also details EY's assessment of the key risks with regard to the financial statements.

4. **IMPLICATIONS**

- (a) **Financial Implications** The audit fee relating to the costs of the audit work is included within existing budgets.
- (b) **Staffing Implications** None
- (c) **Equal Opportunities Implications** None
- (d) **Environmental Implications** None
- (e) **Procurement** None
- (f) **Consultation and communication** None
- (g) **Community Safety** None

BACKGROUND PAPERS: The following are the background papers that were used in the preparation of this report:

N/A

The author and contact officer for queries on the report is Charity Main on extension 8152.

Report file: O:\accounts\Committee Reports & Papers\Civic
Affairs\February 2017\External Audit 2016-17 Audit
Plan.docx

Date originated: 26 January 2017

Date of last revision: 26 January 2017

Cambridge City Council

Year ending 31 March 2017

Audit Plan

26 January 2017

Ernst & Young LLP





Ernst & Young LLP Tel: + 44 20 7951 2000
1 More London Place Fax: + 44 20 7951 1345
London SE1 2AF ey.com

Civic Affairs Committee
Cambridge City Council
The Guildhall
Market Square
Cambridge
CB2 3QJ

26 January 2017

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 the Council's appointed auditor. Its purpose is to provide the Civic Affairs 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 preliminary 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. Where relevant, if our risk assessment changes, we will present you with an update of our Audit Plan at a subsequent meeting when our detailed planning procedures have been completed, and our interim planning work has been performed.

We welcome the opportunity to discuss this Audit Plan with you on 15 February 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

Contents

1. Overview	1
2. Financial statement risks	2
3. Value for money risks	5
4. Our audit process and strategy	6
5. Independence	11
Appendix A Fees	14
Appendix B UK required communications with those charged with governance	15
Appendix C Detailed scopes	17

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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

The 'Terms of Appointment 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 Civic Affairs 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

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

- ▶ Our audit opinion on whether the financial statements of Cambridge City 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
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

Changes in our audit scope

As set out in section 2, the Council will need to prepare group accounts for the first time in 2016/17 following activity to set up a new subsidiary, Cambridge City Housing Company. This will require additional audit procedures as set out in section 2.

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

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. We will seek to validate these with you.

Following completion of our detailed planning and interim audit procedures we will consider if any revisions are required to our identified risk assessment and provide you with an update.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <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>	<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. ▶ Review and test revenue cut-off at the period end date.
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>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. ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Other financial statement risks	
Group accounts	
<p>The Council has recently set up a subsidiary entity, Cambridge City Housing Company whose activity includes material transactions. As a result, the Council will prepare group accounts for the first time in 2016/17.</p> <p>Whilst the number of transactions in 2016/17 are expected to be minimal, the value of transactions, particularly in relation to the balance sheet are expected to be material.</p> <p>The Council will need to consider the consolidation of the subsidiary including the elimination of inter-group transactions consolidation adjustments required to align accounting policy differences.</p> <p>The Council will also need to ensure that the accounts reflect all required disclosure requirements for group accounts.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Understanding the process for consolidating the subsidiary company. ▶ Understanding the transactions undertaken between the two entities and testing that the appropriate accounting entries have been made to eliminate inter-group transactions. ▶ Understanding and testing the differences in accounting policies, ensuring that the appropriate adjustments are made on consolidation to align accounting policies set for the group. ▶ Reviewing the disclosures in the group accounts to ensure that they are materially accurate and complete.
Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement	
<p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.</p>	<p>Our Approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that 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.

- ▶ Review of 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.
- ▶ Agreement of 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) and Investment Property (IP) represent the largest asset values on the Council's balance sheet.

Land and buildings are initially measured at cost and then revalued to fair value. Council dwellings are revalued annually whilst other land and buildings and investment property are revalued on a minimum 5 year rolling basis. In 2016/17 we understand that approximately 90% of IP will be revalued.

The Council will engage an external expert valuer who will apply 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 management experts and the assumptions underlying fair value estimates.

We will obtain an understanding of and evaluate key controls over the valuation of PPE and IP.

Where asset valuations are undertaken in-year we will:

- ▶ Agree the source data used by your valuer to supporting records.
- ▶ Assess the work of your valuer.
- ▶ Agree the outputs to your fixed asset register and statements.

Where the Council proposes significant changes to valuation bases we will evaluate the rationale.

Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying values of these assets remain appropriate.

Pension Liability

The Council operates a defined benefits pension scheme. Accounting for this scheme involves estimation and judgement. The Pension liability is the largest balance on the balance sheet.

We will obtain an understanding of and evaluate key controls over the valuation of the pension liability.

We will consider:

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

Capital transactions

We are aware that the Council are undertaking a number of large capital transactions, either themselves, or with a partner, some of which will span financial years.

It will be important for the Council to fully understand the arrangements in place and any accounting implications so that these can be appropriately recognised in the accounts.

Our Approach will focus on:

- ▶ Understanding the substance of significant one off transactions.
- ▶ Reviewing and testing the accounting treatment proposed by management to ensure that it is in accordance with accounting standards and the Code and has been recognised at the correct value and in the correct financial year.
- ▶ Considering the completeness and accuracy of any related disclosures (for example, joint arrangements).

2.1 Responsibilities in respect of 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.

3. Value for money risks

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 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. At this stage, this has not identified any risks which we view as relevant to our value for money conclusion.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice 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 an audit report that covers:

1. 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.

If appointed, we will issue statutory audit opinions on the Council's newly formed subsidiary. We will plan our audit procedures to identify misstatements that could be material to the statutory financial statements of the individual entity.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

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.

4.2 Audit process overview

Our audit involves:

- ▶ Understanding and evaluating key internal controls where we have identified significant risks;
- ▶ Reviewing the work of Internal Audit where appropriate to inform the identification of risk and our work on the Annual Governance Statement;
- ▶ Reliance on the work of valuation experts in relation to areas such as pensions, property; the NDR appeals provision; and financial instruments; and
- ▶ Substantive tests of detail of transactions and amounts.

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.

Internal audit

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 detailed audit plan, where they raise issues that could have an impact on the year-end financial statements

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 valuations	Management's expert valuer
Pension Liability valuation	Management's actuary / EY Pensions team
Financial Instruments valuations	Management's expert valuer
NDR Appeals Provision	Management's expert valuer

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 audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (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;
- ▶ 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 the Annual Report.
- ▶ 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 and Code of Audit Practice.

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 determined that overall materiality for the financial statements of the Council is £2.39 million based on 2% of gross revenue expenditure in the provision of services. We will communicate uncorrected audit misstatements greater than £119,000 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 How materiality is applied to the component locations

The financial year ended 31 March 2017 will be the first year that the council prepares group accounts. As such, we determine component materiality as a percentage of Group materiality based on risk and relative size to the Group.

We understand that management are currently working through how the consolidation of the Cambridge City Housing Company will impact the group accounts. Once there is greater clarity on this and the relevant accounting transactions we will review the determination of component materiality and communicate this to you at a later date.

4.6 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 Cambridge City Council is £51,979.

The indicative scale fee does not take into account any additional work that may be required as a result of:

- ▶ Audit of group accounts – we have provided fee ranges to management which indicate a proposed fee of £4,500 where we are not the auditors of the Cambridge City Housing Company and £1,000 where we are.
- ▶ Amendments to the Code changing the way the financial statements are presented. Management are currently evaluating the extent of the change to the Council. Once this has been completed we will consider the audit procedures required to audit the restatement and propose a fee for the completion of the work.

4.7 Your audit team

We have made some changes to your engagement team to increase our capacity to provide effective client service and work with your team to deliver the audit in a shorter period of time, in advance of the earlier deadlines for 2017/18.

Suresh Patel now lead's the engagement team, He is an Executive Director with significant experience of Local Government audit. Suresh is supported by Hayley Clark, a Senior Manager who is responsible for the day-to-day direction of audit work and is the key point of contact for the Principal Accountant (Technical & Financial Accounting).

Neil Harris and Tony Poynton (your previous senior engagement team) have been working with Suresh and Hayley, to aid a smooth transition and handover.

4.8 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 Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Civic Affairs Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Civic Affairs Committee and we will discuss them with the 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	Civic Affairs Committee timetable	Deliverables
High level planning	April 2016 January 2017	- 15 February 2017	Audit Fee Letter Audit Plan
Risk assessment and setting of scopes	January – March 2017	15 May 2017	Progress Report
Testing routine processes and controls	February – March 2017	15 May 2017	Progress Report
Year-end audit	June – July 2017	13 September 2017	
Completion of audit	September 2017	13 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.
Conclusion of reporting	October 2017	tbc	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.

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 PSAA 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.

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 PSAA Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 6:94, when taking into account work on the Pooling of Housing Capital Receipts Return. 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.

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 audit engagement 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 £	Explanation
Opinion Audit and VFM Conclusion	51,979*	51,979	51,979	*The fee currently quoted is the scale fee as set by PSAA. As set out in section 4.6 there are two matters which are likely to alter the planned fee for 2016/17. Once these have been agreed we will provide you with an update.
Total Audit Fee – Code work	51,979	51,979	51,979	
Certification of claims and returns ¹	15,438	15,438	15,077	
Non-audit work	TBC**	-	3,300	**This work relates to the Pooling of Housing Capital Receipts Return which is agreed outside of the PSAA regime. Should we be engaged to complete this work in 2016/17 we will agree a fee separately and provide you with an update.

All fees exclude VAT.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

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 UK required communications with those charged with governance

There are certain communications that we must provide to the Civic Affairs 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>	▶ 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 	▶ Audit Results Report
<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 	▶ Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Civic Affairs Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 	▶ Audit Results Report
<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 Civic Affairs Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Civic Affairs Committee may be aware of 	▶ Audit Results Report

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 ▶ Audit Results Report
<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"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<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 ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report ▶ Annual Audit Letter if considered necessary

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).

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.

We understand that management are currently working through how the consolidation of the Cambridge City Housing Company will impact the group accounts. Once there is greater clarity on this and the relevant accounting transactions we will review the determination of audit scope to enable us to report on the group accounts and provide you with an update.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

[ey.com](https://www.ey.com)