



**Cambridge City
Council**
Audit planning report
Year ended 31 March 2019

21 January 2019



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

21 January 2019

Dear Committee Members

Audit Plan for discussion

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Civic Affairs Committee with a basis to review our proposed audit approach and scope for the 2018/19 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.

This report is intended solely for the information and use of the Civic Affairs 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 30 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Civic Affairs Committee and management of Cambridge City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Civic Affairs Committee, and management of Cambridge City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Civic Affairs Committee and management of Cambridge City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2018/19 audit strategy



Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Civic Affairs Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Risk of inappropriate capitalisation of revenue expenditure	Fraud risk	Change in focus	We have identified that the specific risk of management override is inappropriate capitalisation of revenue spending.
Valuation and impairment of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	No change in risk or focus	PPE and 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. 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. We undertake procedures on the use of management experts and the assumptions underpinning fair value estimates.
Pension liability	Inherent risk	No change in risk or focus	The Council is a member of a defined benefit pension scheme. Accounting for this scheme involves estimation and judgement. The Pension liability is one of the largest balances on the balance sheet.
Capital transactions	Inherent risk	No change in risk or focus	We are aware that the Council is undertaking a number of large capital transactions, either themselves, or with a partner, some of which will span financial years. The Council needs to put in place sound financial and governance arrangements, understand the implications on its finances, account for the arrangements appropriately and ensure they are disclosed properly in the accounts.

Overview of our 2018/19 audit strategy

Audit risks and areas of focus...continued

Risk / area of focus	Risk identified	Change from PY	Details
Group accounting	Inherent risk	No change in risk or focus	There are a number of entities within the Council's group arrangements. It is important that the Council continues to perform a detailed assessment to ensure that all potential associates and joint ventures are appropriately recognised in the accounts.

In addition to the identified risks we also highlight to the Committee:

1. Two new accounting standards which the Council is required to implement for 2018/19. Whilst the Council does not expect IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers) to have a significant impact, we will review the Council's impact assessment of the new standards and check the resultant disclosure in the accounts to the requirements of the Code.
2. The Council's long standing and very competent Principal Accountant departed the role in January 2019. The Council put in place interim arrangements which included a period of handover and information sharing. It is in the process of recruiting a permanent replacement. The Council will need to ensure that its plan to prepare the 2018/19 accounts recognises the changes in personnel.

Audit scope

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 2019 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 also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

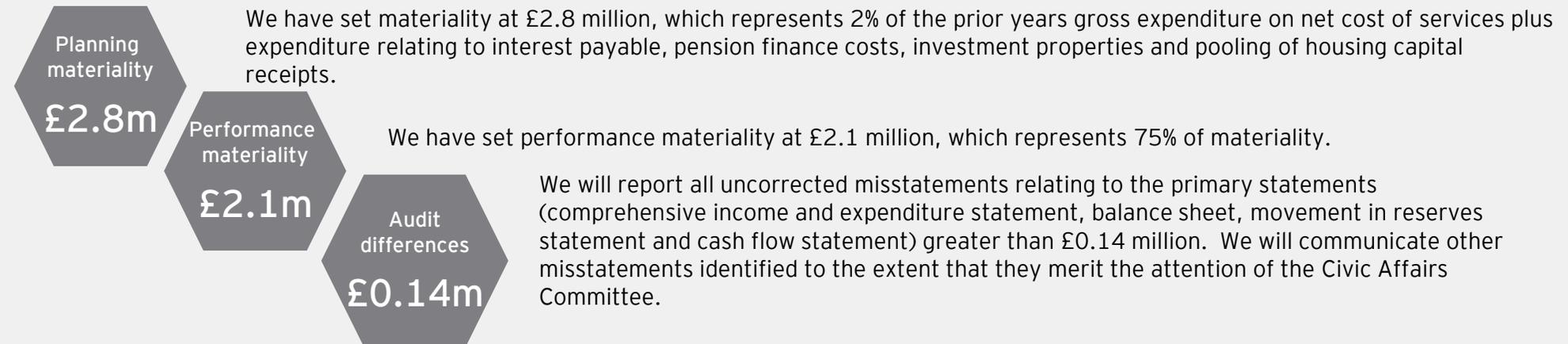
When planning the audit we take into account several key inputs:

- 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.

Overview of our 2018/19 audit strategy

Materiality



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.

Audit team changes

Suresh Patel remains your engagement partner, ensuring continuity of understanding you and key relationships with the Section 151 officer, Chief Executive and Civic Affairs Committee. Suresh will be supported by Melanie Richardson, who replaces Hayley Clark as your audit manager. Melanie has 25 years of experience auditing local councils and is also the manager of the audit of Cambridgeshire and Peterborough Combined Authority.



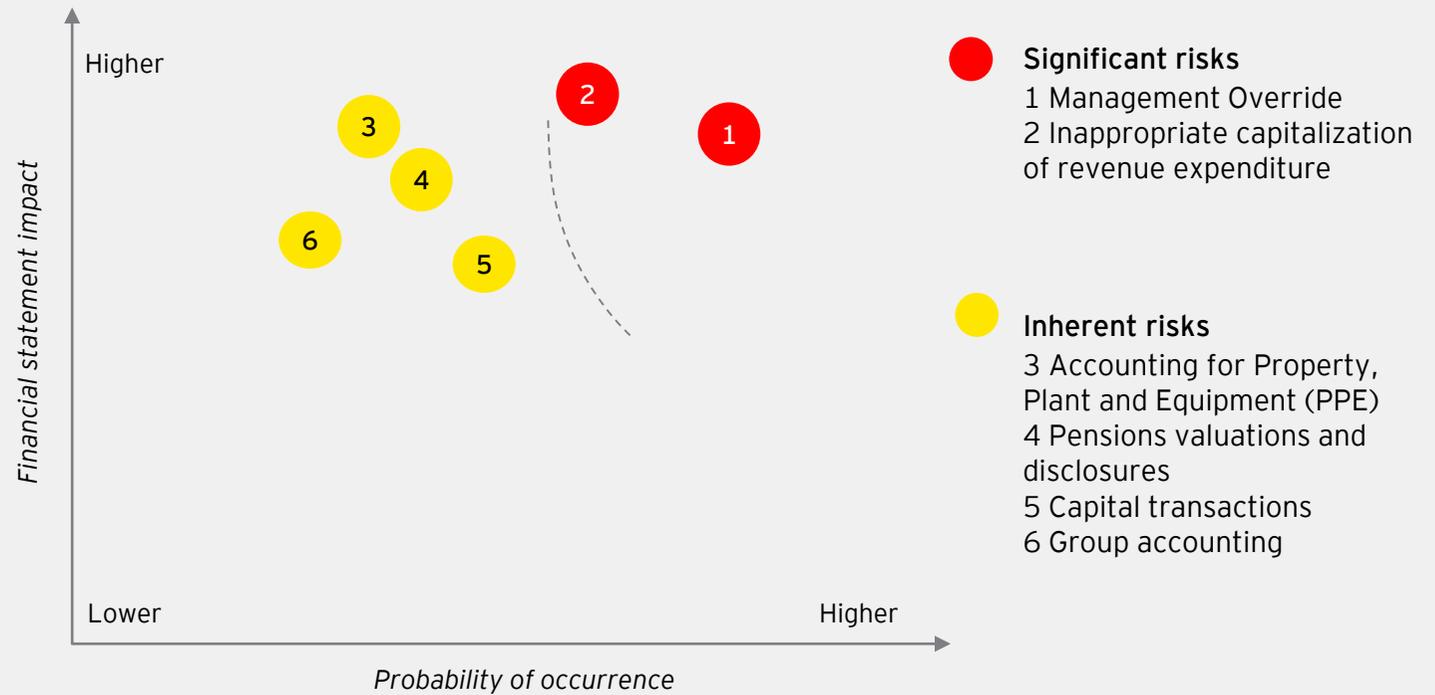
02 Audit risks



Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017/18 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit for 2018/19.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Our response to significant risks

**Management Override:
Misstatements due to fraud
or error**

(Fraud Risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

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.

For the Council, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- Management bias in key accounting estimates and judgements.

What will we do?

We will:

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures in relation to journal entries, and other adjustments made in the preparation of the financial statements.
- ▶ Assess the nature of any significantly unusual transactions identified.
- ▶ Consider if management bias is present in the key accounting estimates and judgements in the financial statements.

Audit risks

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure (Fraud risk)	What is the risk? <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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>	What will we do? <ul style="list-style-type: none">• Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
Financial statement impact <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.</p>		

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Accounting for Property, Plant & Equipment

Property, Plant and Equipment and investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council will engage external expert valuers who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.

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.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per sq m);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for property, plant and equipment and annually for investment properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

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; and
- ▶ Considering the completeness and accuracy of any related disclosures (for example, joint arrangements).

Audit risks

What is the risk/area of focus?

Pensions valuations and disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.

The information disclosed is based on the IAS19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement.

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.

Group accounting

There are a number of entities within the Council's group arrangements. In 2017/18 the Council consolidated its wholly owned subsidiary Cambridge City Housing Company Ltd (CCHC) and Cambridge Investment Partnership LLP (CIP) into its Group accounts. Storeys Field Charitable Trust, Cambridge Live and Visit Cambridge and Beyond were not consolidated. The transactions for these non-consolidated entities were disclosed within related party transactions. It is important that the Council continues to perform a detailed assessment to ensure that all potential associates and joint ventures are appropriately recognised in the accounts.

What will we do?

We will:

- ▶ Liaise with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Our approach will focus on:

- ▶ Review and understand the group boundary assessment completed by the council to ensure all related associates and joint ventures have been correctly accounted for; and
- ▶ Consider the completeness and accuracy of the entities included within the group structure.



03

Value for Money Risks





Value for Money

Background

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. This is known as our value for money conclusion.

For 2018/19 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. In 2018/19 this will include consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that local authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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 this report we have not currently identified any significant risks. However, we will continue to monitor this throughout the audit and inform you of any changes.



04

Audit materiality



Materiality

For planning purposes, we have set materiality for 2018/19 at £2.8m.

This represents 2% of the Council's prior year gross expenditure on net cost of services plus expenditure relating to interest payable, pension finance costs, investment properties and pooling of housing capital receipts. We will reassess it throughout the audit process. The main function of the entity is to provide services to the local community and as such the income statement is considered to be the most appropriate basis for determining materiality. We have provided supplemental information about audit materiality in Appendix C. As the Council prepares consolidated accounts we are also required to determine materiality for the purposes of the group. As the consolidated entities do not have a significant impact on the CIES we have kept the materiality levels the same for the group and the Council as a single entity.



We request that the Civic Affairs Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Materiality

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. We have set planning materiality at £2.8m.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.1m which represents 75% of planning materiality. This is due to our knowledge of the Council and a lack of errors in the previous year.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. At the time of writing our planning report group scoping is still in progress. However, as the most significant items within each of the consolidated entities relates to land and building assets we have assessed that a materiality level of c25% of performance materiality would be appropriate taking into account the combined risk assessment of the entities being consolidated, and the balance involved. As our planning in this area concludes, we will update you if there are any substantial changes.

Audit difference threshold - we propose that misstatements identified below this threshold (£0.14m) are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Civic Affairs Committee, or are important from a qualitative perspective.

Specific materiality - We have set a specific materiality for remuneration disclosures, related party transactions and councillor allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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 also 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; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 Civic Affairs Committee.

Internal audit:

We will review internal audit plans and the results of any relevant work. We will consider the findings from these reports, together with reports from any other work completed in the year, as part of our detailed audit planning, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

Nil	A	Full scope audits
2	B	Specific scope audits
Nil	C	Review scope audits
Nil	D	Specified procedures
Nil	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the group audit team to respond to an identified risk.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Scoping coverage

At the time of writing this report we are awaiting further information to be able to conclude on our group scoping. However, based on our discussions with management to date we are aware that in addition to the Council's subsidiary, Cambridge City Housing Company, a further entity, Cambridge Investment Partnership will be consolidated into the accounts as a joint venture using the equity method. For both entities we understand that the impact on income and expenditure will be immaterial, however, both entities hold significant property assets that require valuation in order to align accounting policies before the balances are included in the consolidated accounts. As such our focus is on those balances that could contain a risk of material misstatement.

For Cambridge City Housing Company we anticipate undertaking the audit work ourselves. For Cambridge Investment Partnership we are awaiting further information to be able to determine whether we will undertake the work ourselves or will be required to issue group reporting instructions to the auditors of that Company. Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Once we have further information on the figures involved we will update our scoping and provide any updates to the Civic Affairs Committee as required.

Key changes in scope from last year

- ▶ Cambridge City Housing Company was a specific scope audit in previous years, and as such there have been no changes to that entity.
- ▶ Cambridge Investment Partnership was included in the consolidated accounts for the first time in 2017/18 and will be covered as a specific scope in 2018/19.
- ▶ Cambridge Live may need to be consolidated into the Council's group accounts in 2018/19.

Details of specified procedures

In order to respond to the risk identified in relation to the valuation of land and buildings we will either review and test the valuation performed by the Council's valuers directly for Cambridge City Housing Company or instruct the auditors of the company to undertake the procedures on our behalf.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below where we should need to rely on the work of a component auditor.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.



06

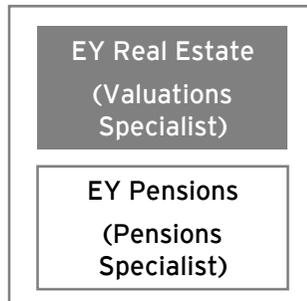
Audit team and use of specialists



Audit team and use of specialists

Audit team

Audit team structure:



Suresh Patel
Lead Audit Partner

Melanie Richardson
Audit Manager

Victor Matimba
Lead Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team

The engagement team is led by Suresh Patel who has significant experience on local government audits. Suresh is supported by Melanie Richardson, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Principal Accountant. The day-to-day audit team will be led by Victor Matimba.

Audit team and use of specialists

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
Valuation of Land and Buildings	Bidwells and Wilks Head and Eve (management specialists) / EY estates (where required)
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to the PSAA) and Hymans Robertson (Council's Actuary).
Financial Instruments	Linked Asset Services (management specialist)
NNDR appeals provision	Analyse Local (management specialist)

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 business 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 specialist 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.



07

Audit timeline



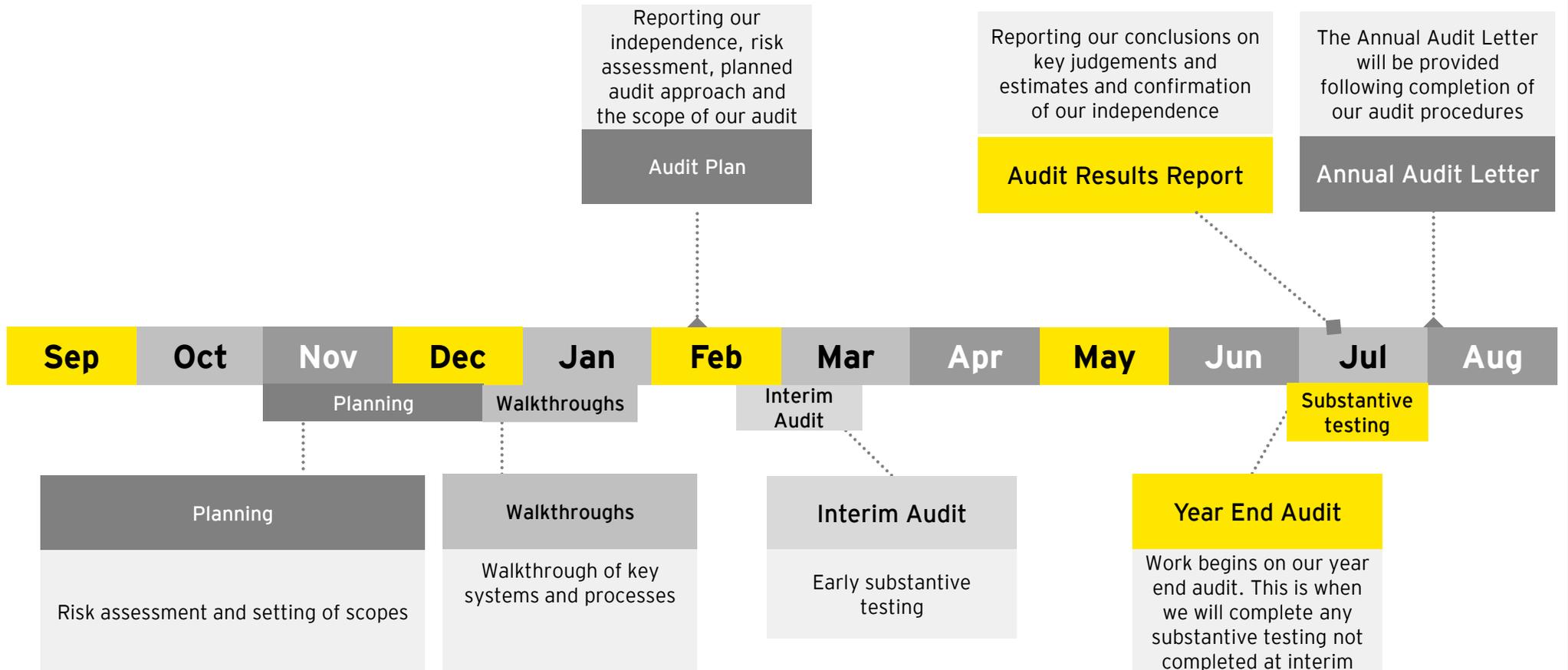


Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19. From time to time matters may arise that require immediate communication with the Civic Affairs Committee and we will discuss them with the Civic Affairs Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 23%. 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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 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 the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Other threats

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

Relationships, services and related threats and safeguards

Description of service	Related independence threat	Period provided	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Capital pooling receipts Return for 2017/18 at the request of the Council. The agreed upon procedures on the certification arrangements are due to start shortly. Our current fee level is £3,750 - £4,000 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2017/18 financial statements.	Relates to 2017/18 return for the period to 31 March 2018.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2017/18. The agreed upon procedures focus on the specific requirements of the certification arrangements and no reliance is placed on this work for the purposes of the financial statements audit. No other threats to independence have been identified.

Other communications

EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



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Appendices



Appendix A

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 fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
PSAA Scale fee	40,024	40,024	51,979
Group reporting	7,500 - 10,500	N/A	8,150
Capital transactions	7,500 - 10,500	N/A	8,750
FMS implementation	-	N/A	19,978
Cash flow restatement	-	N/A	750
Total audit fee - code work	55,024 - 61,024	40,024	89,607
Other non-audit services not covered above (Housing Benefits Subsidy Claim)	12,568	12,568	15,077
Other non-audit services not covered above (pooling return)	3,750 - 4,250	N/A	3,750 - 4000 tbc
Total other non-audit services	16,318 - 16,818	12,568	18,827 - 19,077
Total fees	71,342 - 77,842	52,592	108,434 - 108,684

The agreed fee presented 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.

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to the specific areas of focus we have detailed in section 2 of this audit planning report. Due to the ongoing nature of the issues we are not yet in a position to give a definitive view on the extent of work required but will keep this under review with management and provide you with updates accordingly.

All scale fee variations will be subject to agreement with the PSAA.

As set out in the *Independence* section above, we are currently undertaking agreed upon procedures for the Capital Receipts Return for 2017/18. We will provide an update on the final fee when our work has been completed.

Appendix B

Required communications with the Civic Affairs Committee

We have detailed the communications that we must provide to the Civic Affairs Committee.

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Civic Affairs Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 	Audit results report	

Appendix B

Required communications with the Civic Affairs Committee

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report	
Fraud	<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	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	

Appendix B

Required communications with the Civic Affairs Committee

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the 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	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report	
Group audits	<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 	Audit planning report Audit results report	

Appendix B

Required communications with the Civic Affairs Committee

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Civic Affairs Committee reporting appropriately addresses matters communicated by us to the Civic Affairs Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Purpose and evaluation of materiality

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

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

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

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