Middlesbrough Council
Audit Planning Report

Year ended 31 March 2019

February 2019

Building a better working world

Private and Confidential

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

February 2019

Dear Corporate Affairs and Audit Committee Members

Audit Planning Report

We are pleased to attach our Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Affairs and Audit 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 Ltd (PSAA), auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Audit Planning Report 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 Corporate Affairs and Audit 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 7 March 2019, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

N. Wright

Nicola Wright, Associate Partner
For and on behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available 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 February 2017)" 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 Corporate Affairs and Audit Committee and management of Middlesbrough Council, in accordance with the Statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Affairs and Audit Committee and management of Middlesbrough 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 Corporate Affairs and Audit Committee and management of Middlesbrough 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 Corporate Affairs and Audit 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
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.
Misstatements due to fraud or error	Fraud risk/ Significant 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.
Valuation of land and buildings	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is 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 balance recorded in the balance sheet.
Pension liability valuation	Inherent risk	No change in risk or focus	The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.
Implementation of new accounting standards	Inherent risk	New risk in 2018/19	The 2018/19 CIPFA Code of practice on local authority accounting has adopted the requirements of International Financial Reporting Standard ('IFRS') 9 – financial instruments and IFRS 15 – Revenue from contracts with customers. These standards may impact the way in which the Council accounts for its financial instruments and revenue as well as introducing a number of new disclosure requirements for consideration.

Overview of our 2018/19 audit strategy

Value for Money risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Prior year value for money recommendations	Value for money risk	New risk in 2018/19	As part of our 2017/18 Audit Results Report, we made four value for money recommendations in relation to the asset disposal policy, due diligence policy, one stop shop and senior officer and member relations. We therefore plan to revisit progress against these value for money recommendations as part of our 2018/19 audit.
Financial Sustainability	Value for money risk	New risk in 2018/19	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. In order to mitigate the developing risks, the Council has created an updated Medium Term Financial Plan that includes detailed savings plans. We will therefore consider the robustness of these plans as part of our Value For Money conclusion work.

Materiality

Planning materiality

£8.1m

Materiality has been set at £8.1m, which represents 1.8% of the prior year's gross expenditure on provision of services.

Performance materiality

£6.1m

Performance materiality has been set at £6.1m, which represents 75% of materiality.

Audit differences

£0.4m

We will report all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and the collection fund greater than £0.4m. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Middlesbrough 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.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

Financial statement impact

Misstatements that may occur in relation to the risk of fraud in revenue and expenditure recognition affect the income and expenditure accounts. These accounts had the following values in the 2017/18 financial statements:

Gross income: £418.9m

Gross expenditure: £450.2m

What is the risk?

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, and the potential improper capitalisation of revenue expenditure. We will therefore target our audit work in these areas.

What will we do?

We plan to perform the following procedures to address the risk:

- Review and test revenue and expenditure recognition policies, including consideration of the recognition of grant income;
- Review and discuss with management any accounting estimates relating to revenue or expenditure recognition, such as manual accruals, for evidence of bias;
- Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified;
- Review a sample of expenditure transactions recorded in the ledger and payments made from the bank account post year-end and confirm that the associated expenditure has been recorded in the correct period.

Our response to significant risks (continued)

Misstatements due to fraud or error*	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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.	We plan to perform the following procedures to address the risk: • Identify fraud risks during the planning stages; • Inquiry of management about risks of fraud and the controls put in place to address those risks; • Understand 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; • Determine an appropriate strategy to address those identified risks of fraud; and • Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Audit risks

Other areas of audit focus

We have identified the following areas of the audit that have not been classified as significant risks, but that are still important when considering the risk of material misstatement to the financial statements and disclosures.

What is the risk?	What will we do?
Valuation of land and buildings The value of land and buildings represents the most significant asset balance in the Council's financial statements, and is 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.	We plan to perform the following procedures to address the risk: • Consider the work performed by the Council's valuer, Kier, 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 square metre); • Consider the annual cycle of valuations to ensure that land and building assets have been valued as part of a five-year rolling programme and in line with the valuation methods set out in the CIPFA Code of Practice; • 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,
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Teesside Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018, this totalled £200 million. The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We plan to perform the following procedures to address the risk: • Liaise with the audit team of Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Middlesbrough Council; • Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA 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 the pension disclosures.

Other areas of audit focus (continued)

What is the risk?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.	We plan to perform the following procedures to address the risk: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of local government revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We plan to perform the following procedures to address the risk: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when it satisfies a performance obligation; and • Check additional disclosure requirements.

03 Value for Money risks

Value for Money risks

Background

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

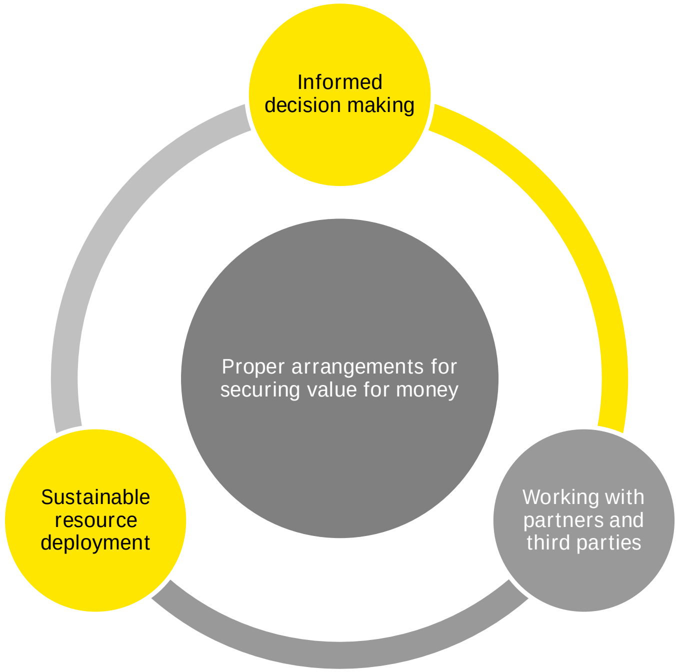
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your Annual Governance Statement.

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.

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



Value for Money risks (continued)

Prior year value for money recommendations

What is the risk?

As part of our 2017/18 Audit Results Report, we made four value for money recommendations. These were:

- Asset disposal policy – a clear definition of the difference between active and pipeline disposals should be added to the asset disposal policy;
- Due diligence – a standard approach to due diligence, detailing the minimum due diligence procedures that officers are expected to complete, should be established;
- One Stop Shop – the Council should undertake an Internal Audit of the One Stop Shop process in order to identify improvements in the controls and processes in place; and
- Councillor and Senior Officer relationships – the Council should look to introduce an action plan to address the cultural and relationship issues that exist between Councillors and Senior Officers. One potential solution may be externally facilitated sessions with experts in conflict management.

As these recommendations were raised in relation to our prior year value for money procedures, we believe that it is necessary to review the Council's progress against each of the recommendations, when concluding on our value for money procedures in 2018/19.

What will we do?

We plan to perform the following procedures to address the risk identified:

- Review the asset disposal policy and assess whether a clear definition of the difference between active and pipeline disposals has been added;
- Review policy documents that include the updated due diligence policy to establish if clear guidelines have been added for officers to follow. We will also review a sample of business cases to ensure that the new policy has been adhered to;
- Review the terms of reference for the One Stop Shop internal audit review, as well as internal audit findings, to identify if there are any serious governance failings that need to be considered as part of our value for money opinion; and
- Review the procedures undertaken by the Council to address the cultural and relationship issues that exist between Councillors and Senior Officers.

Value for Money risks (continued)

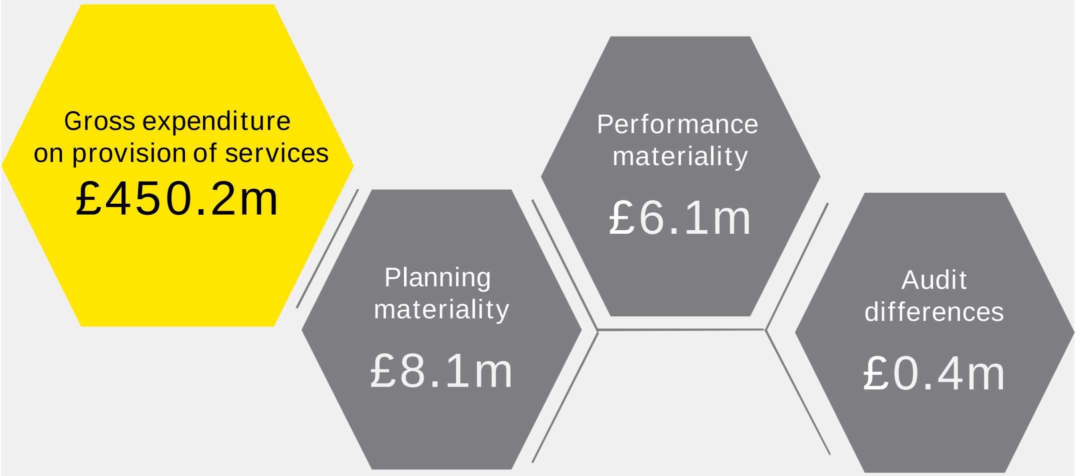
Financial Sustainability	What is the risk?	What will we do?
	The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and demand for services. At the end of quarter three, the Council is forecasting an overspend against budget for 2018/19 of £577k. This overspend is largely due to significant overspends in both Adult and Children's services. In addition, over the next three years the Council is required to make £24m of savings. There is therefore significant pressure on the Council's finances over the coming years. In order to mitigate the developing risks, the Council has created an updated Medium Term Financial Plan that includes detailed savings plans for the full £24m of required savings. The Council has also introduced a dedicated Change Programme Manager, who will have responsibility for monitoring progress against each of the individual savings plans.	We plan to perform the following procedures to address the risk identified: • Select a sample of savings plans and assess their reasonableness, including testing of the assumptions used; • Review the specific plans in place for both Adult and Children's services to understand how the Council plans to control the overspends in both these areas; • Review the level of reserves to ensure they are sufficient to cover the Council's assessment of the minimum required to provide its statutory services; and • Review the Medium Term Financial Plan and test the reasonableness of a sample of the assumptions used.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £8.1m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £6.1m which represents 75% of planning materiality. We have used a threshold of 75% as our experience from prior year audits means that we do not anticipate identifying a significant number of audit adjustments.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and the collection fund greater than £0.4m.

Other uncorrected misstatements, such as reclassifications and corrected misstatements, will be communicated to the extent that they merit the attention of the Corporate Affairs and Audit Committee, or are important from a qualitative perspective.

05 Scope of our audit

Our audit process and strategy

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 statements audit

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

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 the other information contained in the financial statements, and reporting whether it is inconsistent with our understanding and/or the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; 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 in 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 Corporate Affairs and Audit Committee.

Internal audit

We will meet regularly with Helen Fowler, Internal Audit Manager, and 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 financial statements.

06 Audit team

Audit team

The engagement team is led by Nicola Wright, who will have responsibility for ensuring that our audit is high quality and delivers value to the Council. She will be supported by Stuart Kenny, who will be the senior manager responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. This will be the fourth year that Nicola and Stuart have worked on the audit of Middlesbrough Council.

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	Kier (management's valuation specialist) EY Valuations Team
Pensions disclosure	AON Hewitt (management's actuarial specialist) EY Actuaries

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 Corporate Affairs and Audit Committee and we will discuss them with the Corporate Affairs and Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Corporate Affairs and Audit Committee timetable	Deliverables
Planning - Risk assessment and setting of scopes Walkthrough of key systems and processes	December		
	January		
Interim audit testing	February		
Interim audit testing (continues)	March	Corporate Affairs and Audit Committee	Audit Planning Report
	April		
	May	Corporate Affairs and Audit Committee	
Year end audit testing	June		
Year end audit testing (continues) Audit completion procedures	July	Corporate Affairs and Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance" require 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**
▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (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; and ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▶ 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 the 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 Nicola Wright, your audit engagement leader 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.

At the time of writing, there are no non-audit fees other than those relating to certification of claims and returns, and therefore 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.

Relationships, services and related threats and safeguards

Other threats

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

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

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 30 June 2018 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Fee – Code work	88,578	88,578	115,037
Additional fee – VFM extended procedures	TBC	-	26,000*
Total audit	88,578	88,578	141,037
Other non-audit services not covered above (Housing Benefits)	10,500**	-	10,571
Non audit work – other certification work	TBC	-	4,000
Total fees	99,078	88,578	155,608

All fees exclude VAT

* We have requested a scale fee variation for the additional work undertaken in respect of the Value for Money risks in 2017/18. This fee has been agreed with officers and we have informed the PSAA.

** This is the provisional fee for the 2018/19 Housing Benefits certification work, which is to be agreed with the Council.

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.

Appendix B

Required communications with the Corporate Affairs and Audit Committee

We have detailed the communications that we must provide to the Corporate Affairs and Audit Committee.

		Our reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit 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 between the PSAA's appointed auditors and audited bodies
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified	Audit Planning Report
Significant findings from the audit	• 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

Appendix B

Required communications with the Corporate Affairs and Audit Committee (continued)

Required communications	What is reported?	Our reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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
Misstatements	• 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	• Enquiries of the Corporate Affairs and Audit 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	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • 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

Appendix B

Required communications with the Corporate Affairs and Audit Committee (continued)

		Our reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement associate partner's consideration of independence and objectivity such as: • 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
External confirmations	• 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	• 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 Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of	Audit Results Report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report/Annual Audit Letter

Appendix B

Required communications with the Corporate Affairs and Audit Committee (continued)

		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
Auditor's report	• 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	• Breakdown of fee information when the Audit Planning Report 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 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. • Reading other information contained in the financial statements, including the statement that the annual report is fair, balanced and understandable, and that the Corporate Affairs and Audit Committee's reporting appropriately addresses matters communicated by us to the Corporate Affairs and Audit Committee, and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Appendix C

Additional audit information (continued)

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 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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