London Borough of Hillingdon

Draft Outline Audit Planning Report

Year ended 31 March 2020

20 January 2020

EY

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20 January 2020

Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW

Dear Audit Committee Members

Outline audit planning report

We are pleased to attach our Outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We are currently completing our detailed planning procedures and will update the Committee if we identify any further risks or change our audit strategy.

This report is intended solely for the information and use of the 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 03 February 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (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 Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon 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 Audit Committee and management of London Borough of Hillingdon 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 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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

Risks	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk / Significant risk	**No change** in risk	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/ Significant risk	**No change** in risk	For 2019/20, we have identified that there is a risk of inappropriate capitalisation of revenue spending.
Valuation of schools	Significant risk	**New risk**	As at 31 March 2019 the Council's schools are valued at approx. £700 m following a £300m upwards revaluation in the prior year. Given the magnitude of the valuations and sensitivity around judgements and assumptions there is a risk that the 2019/20 valuation could be materially misstated.
Accounting for the Dedicated Schools Grant (DSG)	Significant risk	**New risk**	As at 31 March 2019 the Council reported a negative DSG balance of £8.7m. In year forecasts highlight further pressures on the DSG with the latest forecast estimating a year end outturn of £13-14m. Under the CIPFA Code negative reserves are not permitted. In 2018/19 the negative DSG balance was offset by other School balances resulting in a net year end balance on the Schools Reserve of £2.7m . There is risk that the Council will be unable to do the same for 2019/20.
Valuations of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	**No change in focus**	The carrying amount of PPE and the fair value of IP represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is an inherent risk of material misstatement.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus (continued)

Risks	Risk identified	Change from PY	Details
Pension liabilities and the IAS 19 valuations	Inherent risk	**Change in focus as a result of the triennial review**	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 administration provided by Surrey County Council. For 2019/20 the Council will need to consider the impact of the triennial review of the Fund as well as the potential for ongoing impact of the national issue relation to Guaranteed Minimum Pension (GMP).
Consideration of Group Boundary	Inherent risk	No change in focus	During 2018/19, Hillingdon created a housing company, Hillingdon First Limited. Depending on the qualitative and quantitative size of the company, the finance team will need to consider the need to prepare Group Accounts. No such requirement arose in the 2018/19 accounts. We will re-assess the interpretation of the preparation of Group Accounts as part of the 2019/20 audit.
New Accounting Standards – IFRS 16	Inherent risk	Change in focus	There is one new accounting standard which is applicable to local government accounts from the 2020/21 financial year onwards, which might require transitional disclosures in the 2019/20 accounts.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality £12.97m	Consistent with our prior year's approach, we calculated our planning materiality as 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. As a result, our planning materiality for the audit planning purposes is consistent with the prior year's final materiality.
Performance materiality £9.73m	Performance materiality represents 75% of planning materiality, consistent year on year.
Audit differences £0.65m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, and collection fund) greater than £0.65m. We will communicate other misstatements identified to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

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 London Borough of Hillingdon give a true and fair view of the financial position as at 31 March 2020 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.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 8 we have highlighted where additional work will be required for 2019/20 at this stage. We will discuss with management a the associated fees as the audit progresses.

02 Audit risks

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 London Borough of Hillingdon, 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 basis is present in the key accounting estimates and judgements in the financial statements.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What is the risk?

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.

The Council's Constitution requires the Corporate Director of Finance to prepare a Capital Strategy which;

a. Sets out the principles the Council will follow in its capital planning.

b. Outlines the methodology for inclusion of schemes within the Capital Programme.

c. Sets out the arrangement for management of capital schemes.

d. Identifies the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

Achievement of budget is critical to minimizing 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 the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme (£105m) there is a risk of inappropriate capitalisation of revenue expenditure.

What will we do?

- Review of the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- We will specifically test PPE additions with a specific focus on incorrect capitalisation of revenue expenditure.

Our response to significant risks (continued)

Dedicated Schools Grant (DSG) Reserve	What is the risk?	What will we do?
	The Council is forecasting a year end deficit on DSG of £13-14m. The CIPFA Code does not permit the use of negative reserves. At the date of this report there is uncertainty as to whether the Department for Education will provide funding to councils impacted by this issue. There is a risk that the Council's accounting treatment of the DSG balance will not be in line with the Code. We have considered the potential impact on the Council's financial resilience as part of the value for money conclusion in Section 3.	▸ Continue to monitor the in year position of the DSG as well as the likely year end outturn position; ▸ Review the plan submitted to reduce the impact of the negative DSG position over the medium term; ▸ Discuss the position with senior officers to understand any possible mitigation or the latest guidance regarding the disclosure of, and accounting for, negative reserves in the 2019/20; ▸ Consider any guidance from CIPFA which may be relevant in auditing the year end accounts.

Our response to significant risks (continued)

Valuation of Schools

Financial statement impact

Misstatements that occur in relation to the incorrect valuation of Schools could result in a material mis-statement in the Balance Sheet.

What is the risk?

The carrying amount of Schools is a significant balance in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Schools balances are highly material at approx. £700m and are subject to regular review by the external valuers – Wilkes Head and Eve (WHE).

There is a risk that incorrect assumptions could materially impact the year end balances as presented in the Balance Sheet.

What will we do?

- Understand the Council's approach to schools assets and the valuation methodology to be adopted in 2019/20.
- Determine the impact of any upwards/downwards valuations and based on our materiality levels consider the impact on the 2019/20 financial statements;
- We will consider using out our internal valuation specialists to challenge management's assumptions and assertions.
- 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 testing 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 assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered 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 2019/20 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.

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?	What will we do?
Valuation of Land and Buildings The carrying amount of Property, Plant and Equipment (PPE) and the fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	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 testing 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 assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered 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 2019/20 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.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> 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 Surrey County Council. 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 2019 this totalled £617 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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. For 2019/20 the Council will need to take into account the triennial review of the pension fund as well as consider the potential ongoing impact of the national issue relating to GMP.	We will: ▸ Liaise with the EY Team as auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon. For 2019/20 this will also include the additional information provided to inform the triennial valuation. ▸ Assess the work of the Pension Fund actuaries (Hymans and Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ▸ Consider any updated information in respect of the impact of national issues including GMP; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as risks, but are still important when considering the areas of audit focus.

What is the area of focus?	What will we do?
<u>IFRS 16 Leases</u> The Council will need to make disclosures in its 2019/20 accounts on its adoption of the requirements of IFRS 16 for financial years commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases for lessees and it is expected that significant work will be required by officers to identify all of the leases that it has in place at 1 April 2020. Readiness assessment is encouraged to prepare for the upcoming implementation.	We will: ➢ Assess the Authority's transition arrangements, including its assessment of the expected impact of the standard on the Authority's accounts; and ➢ Ensure that transition disclosure requirements have been included in the financial statements under IAS 8, where applicable.
<u>Consideration of Group Boundary</u> During 2018/19, the Authority created a housing company, Hillingdon First Limited. Depending on the qualitative consideration of and quantitative size of the company, the finance team will need to consider the preparation of Group Accounts.	We will re-assess the Council's assessment of the need to prepare Group Accounts as a result of transactions occurring within the subsidiary within the financial year.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether London Borough of Hillingdon 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 2019/20 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. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Authority 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 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 this stage, this has resulted in us identifying one significant risk which we outline over the page

Value for Money Risks

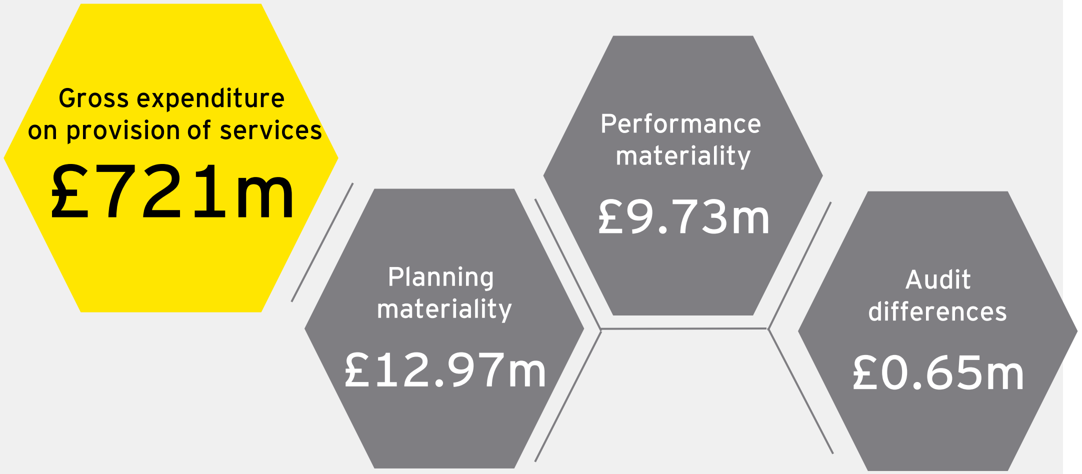
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Financial Resilience The Council has a strong record of delivery on its savings plans in the period since the Comprehensive Spending Review in 2010. We know that the current savings agenda is now in review with a re-focus required to deliver the next phase of the efficiency agenda. This has required the Council to draw down some £7 m of General Reserves to support the year end outturn position in 2019/20. This is the first time that the Council has been required to do so in recent years at this level. In addition, the Council's DSG position is an added pressure on financial resilience. There is currently uncertainty over whether the Department for Education will provide additional funds for councils in deficit positions. If the Council is required to use its general fund balance and/or other usable reserves, there will be an increased risk on its financial resilience.	Informed decision making; Sustainable Resource Deployment	We will: ▸ Assess the financial resilience of the Council over the Medium Term Financial Plan through consideration of budget gaps and uncertain income sources and stress test this against Usable Reserves with a view on determining where the Council sits in respect of its minimum level of Reserves should the use of Usable Reserves be required to further support the revenue budget in future years; ▸ Liaise with senior officers to understand the Council's financial position and forecast outturn, including any position that the Council may adopt regarding the year end position of its DSG balance.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, we have set materiality for 2019/20 at £12.97m. This represents 1.8% of the Council's prior year gross expenditure on provision of services, consistent year on year. When setting the materiality threshold, we took into account that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit. We have provided supplemental information about audit materiality in Appendix C.



We request that the 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 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, & collection fund financial statements 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 audit committee, or are important from a qualitative perspective.

Specific materiality - We may set a materiality lower than that specified for specific accounts for e.g. remuneration disclosures , related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. If this is the case we will confirm this in our Audit Results Report.

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).

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 Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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 2019/20 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 Audit Committee.

Internal audit:

We will regularly meet with the Head of Business Assurance & Counter Fraud, 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. We will not rely on Internal Auditor's work and will adopt a fully substantive testing approach.

06 Audit team

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	EY Property Valuations Team; Wilkes Head and Eve; & Jones Lang LaSalle We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions	EY Pensions; Hymans Robertson & Barnett Waddingham

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.

Audit team

There are no changes to senior members of the audit team. Suresh Patel is the Associate Partner and Adrian Balmer is the Senior Manager.

07 Audit timeline

Audit timeline

Indicative 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 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	**December**	Audit Committee	
Walkthrough of key systems and processes	**January**		
Testing of routine processes and controls	**February**	Audit Committee	Audit Planning Report
Interim audit testing	**March**		
	April	Audit Committee	Interim Update Report
	May		
Year end audit	**June**		
Accounts testing/Audit Completion procedures	**July**	Audit Committee	Audit Results Report Audit Opinions and Completion Certificates
	August - October	Audit Committee	Annual Audit Letter

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**
▸ 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	▸ 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 audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 1:4. 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.

Other communications

EY Transparency Report 2019

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 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

09 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 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.

The fee for 2019/20 reflects the year 2 of the new 5 year contract awarded by PSAA.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee	121,096	121,096
Additional fees:		
- PPE valuations significant risk	TBC	6,995
- IFRS 9	-	1,275
- Correspondence from the public	-	1,758
- VFM significant risk	**TBC**	**-**
Total audit	**121,096**	**131,123**
Non-audit services (Housing Benefits)	28,290	27,600
Non-audit services (Housing Capital Receipts	TBC	TBC*
Non-audit services (Teacher's Pensions)	12,500	12,000
Total other non-audit services	TBC	39,600
Total fees	TBC	170,723

All fees exclude VAT

TBC* - We are still concluding the work in this area and will provide an update at a later Audit Committee once we have finalised and concluded on the final fee

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 Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the 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 to be presented to the February 2020 Audit Committee
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 to be presented to the July 2020 Audit Committee

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**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 to be presented to the July 2020 Audit Committee
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 to be presented to the July 2020 Audit Committee
Fraud	▶ Enquiries of the 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 to be presented to the July 2020 Audit Committee
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 to be presented to the July 2020 Audit Committee

Required communications with the 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 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 presented to the February 2020 Audit Committee and Audit Results Report to be presented to the July 2020 Audit Committee

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report to be presented to the July 2020 Audit Committee
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 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 Audit Committee may be aware of	Audit results report to be presented to the July 2020 Audit Committee
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report to be presented to the July 2020 Audit Committee

Required communications with the 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 to be presented to the July 2020 Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to be presented to the July 2020 Audit Committee
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report to be presented to the July 2020 Audit Committee
Fee Reporting	▸ 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 to be presented to the February 2020 Audit Committee; and Audit results report to be presented to the July 2020 Audit Committee
Certification work	Summary of certification work undertaken	Certification report to be presented to the February 2021 Audit Committee

Appendix C

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. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

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.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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