South Cambridgeshire District Council

Audit Plan

Year ended 31 March 2018

13 March 2018

Building a better working world

13 March 2018

Audit & Corporate Governance Committee
South Cambridgeshire District Council
South Cambridgeshire Hall
Cambourne Business Park
Cambourne, CB23 6EA

Dear Audit & Corporate Governance Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of the Audit & Corporate Governance 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 22 March 2018 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

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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated 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 Audit & Corporate Governance Committee and management of South Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Corporate Governance Committee, and management of South Cambridgeshire District 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 Audit & Corporate Governance Committee and management of South Cambridgeshire District 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 2017/18 audit strategy

Overview of our 2017/18 audit strategy

This 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Corporate Governance Committee with an overview of our initial risk identification 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.
Management override of controls	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Preparation of statement of accounts, working papers and responding to audit queries	Significant risk	Increase in risk or focus	In the prior year, the Council experienced significant problems preparing its FY17 statements of accounts, working papers and responding to audit queries. For this year the Council needs to prepare draft accounts by 31 May 2018 and publish audited accounts by 31 July 2018. The Council is taking steps to strengthen its arrangements for accounts closedown and the associated requirements for meeting the accelerated timetable. However, the Council also faces additional pressures from introducing a new asset register, consolidating a second subsidiary company, implementing a new general ledger and continued key staff turnover. As a result we view it as a significant risk that the Council will prepare materially accurate accounts, with good quality working papers and respond to audit queries effectively and promptly. Where this risk requires additional audit input and liaison we will discuss with the Executive Director the impact on the planned audit fee.

Overview of our 2017/18 audit strategy

Audit risks and areas of focus (cont)

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment (PPE)	Higher inherent risk	Increase in risk or focus	The fair value of land, buildings and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. In light of the prior year issues on the housing stock valuation, we view this as a higher inherent risk.
Pension Liability valuation	Inherent risk	No change in risk or focus	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 Cambridgeshire 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 2017 this totalled £57.5mn.

Materiality

Planning materiality
£1.9mn

We have set materiality at £1.9mn, which represents 2%of the forecast gross expenditure of the Council and is the top of our range.

Performance materiality
£0.95mn

We have set performance materiality at £0.95mn, which represents 50%of materiality. This is the lower end of our range and reflects the extent of errors we identified in the prior year accounts.

Audit differences
£95k

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 £95,000. We will communicate other misstatements identified to the extent that they merit the attention of the Audit & Corporate Governance Committee.

Overview of our 2017/18 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 South Cambridgeshire District Council give a true and fair view of the financial position as at 31 March 2018 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.

For 2017/18 there have been changes in respect of the group accounts which impact on the scope of our work and the associated audit fee. The Board of South Cambs Limited has appointed Ensors as its auditors, in the prior year it was EY. In addition, the Council has decided that it will consolidate Shire Homes Lettings Limited which will also be audited by Ensors. These changes require us to carry out specific procedures on the consolidation process and audit of the group accounts and as a result we propose to retain the additional audit fee of £5,000 we agreed for the prior year.

Audit team

We have made a change to the senior team involved in your FY18 audit, with Kay McClennon as your Audit Manager.

Suresh Patel, Associate Partner

Kay McClennon, Manager
Kay is a CIPFA and ICAEW qualified accountant and brings over 20 years of experience auditing local councils in the Cambridgeshire region.

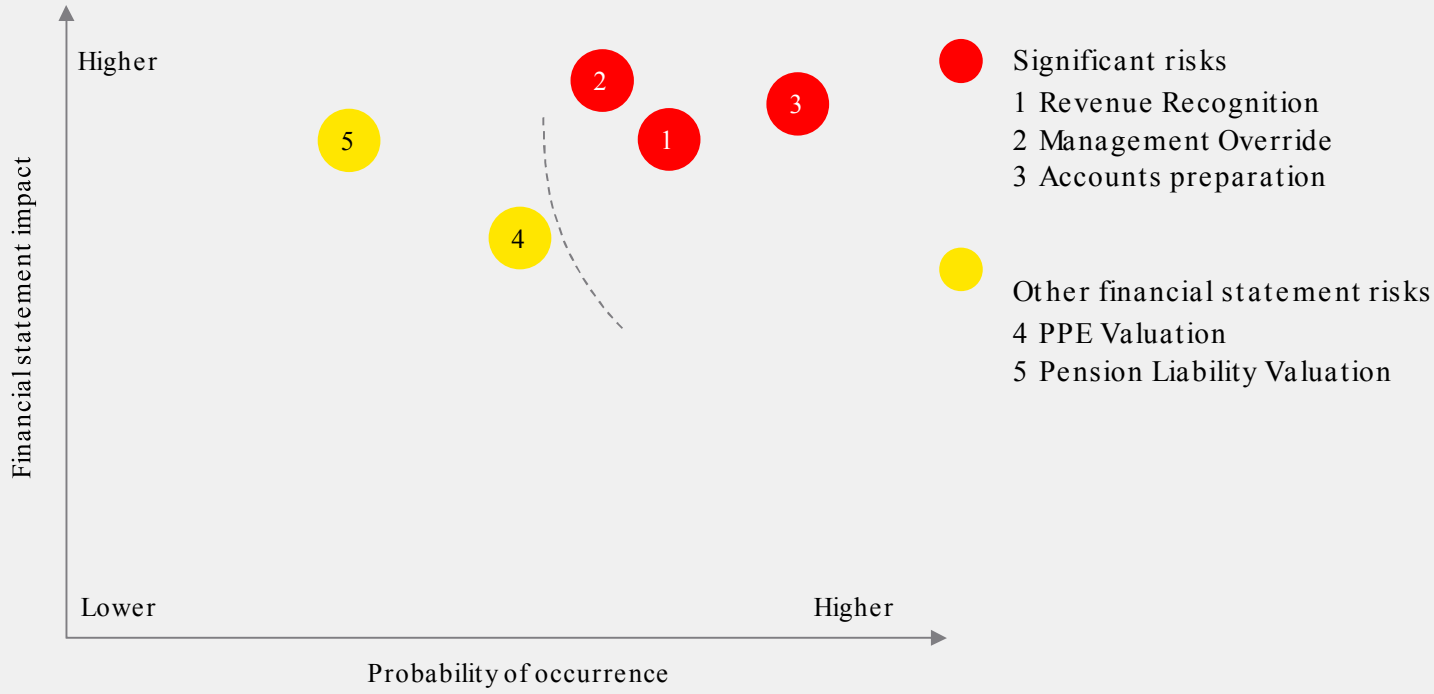
02 Audit risks

Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2018 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

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



Our response to significant risks

We have set out the significant risks 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 occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2017 financial statements:

Income: £93mn

Expenditure Account: £95mn

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.

What will we do?

We will:

- Review and test revenue and expenditure recognition policies.
- Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Develop a testing strategy to test material revenue and expenditure streams.
- Review and test revenue cut-off at the period end date.

Our response to significant risks (continued)

Risk of Management override: Misstatements due to fraud or error

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. These accounts had the following balances in the 2017 financial statements:

Income: £ 93mn

Expenditure Account: £95 mn

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What will we do?

We will:

- Identify inherent and actual fraud risks during planning.
- Enquire 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.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (this will include the use of analytics to focus our testing).
- Review accounting estimates for evidence of management bias.
- Evaluate the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Accounts preparation

Financial statement impact

The risks we have outlined could impact the preparation of a statement of accounts free from material misstatement and supported by good quality working papers.

What is the risk?

For FY18 the Council needs to prepare draft accounts by 31 May and publish audited accounts by 31 July. The accelerated timetable provides risks for both the preparers and the auditors of accounts.

We have previously reported to the Committee the problems experienced by the Council in the prior year in preparing its accounts, supporting working papers and responding to audit queries. The Council is taking action to resolve those problems, however Council is facing increasing pressure not only from the need to meet the accelerated deadlines but also from introducing a new asset register, consolidating a second subsidiary company, implementing a new financial ledger and the loss of key finance staff.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Any slippage from the Council to its closedown timetable and agreed outputs with us could potentially put the delivery of the Council's audit at risk.

To mitigate this risk we will require:

- Good quality draft financial statements and supporting working papers by the agreed deadline;
- Appropriate Council staff to be available throughout the agreed audit period; and
- Complete and prompt responses to audit questions.

To further streamline this process, the Council needs to ensure it has adequate review processes in place before supporting documentation is provided to us. For example, we would expect a senior member of the finance team to review and check evidence before it is presented for audit. This specifically applies to the transfer of data into the new asset register.

If the Council is unable to meet key dates within our agreed timetable, we will notify the Executive Director of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy our team to other work to meet deadlines elsewhere.

Where we are required to carry out additional work and input to complete your audit, due to a lack of understanding of prior year issues arising from finance staff turnover, additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify the Executive Director of the impact on the fee and the timing of the audit. Such circumstances may also result in a delay to your audit while we complete other work elsewhere.

Our response to significant risks (continued)

Accounts preparation (continued)

What will we do?

We recognise the challenge to the Council to mitigate the risks associated with preparing its accounts to the accelerated deadlines and in light of its other challenges. We are committed to working collaboratively with the Council by:

- Engaging early to facilitate early substantive testing where appropriate.
- Providing an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitating faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Using the EY Client Portal, which will:
    - Streamline our audit requests through a reduction of emails and improved means of communication;
    - Provide on –demand visibility into the status of audit requests and the overall audit status;
    - Reduce risk of duplicate requests; and
    - Provide better security of sensitive data.
- Agreeing the team and timing of each element of our work with you.
- Providing clarity on what we consider to be good quality supporting working papers before the Council prepares those papers.
- Ensuring we prioritise our early work on the areas of your accounts most susceptible to error.

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 fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Given the issues arising during the audit in 2016/17 and the additional work carried out on the Housing Stock valuation, we view this as a higher inherent risk. We have not determined it is a significant risk because we concluded in 2016/17, after additional audit procedures, that the valuation of council dwellings in the Council's accounts was materially correct.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per 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 will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2017/18 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 (cont)

What is the risk/area of focus?	What will we do?
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 Cambridgeshire 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 2017 this totalled £57.5 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. 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.	We will: • Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire Council; • Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and by considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2017/18 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"

The NAO defines proper arrangements as your arrangements to:

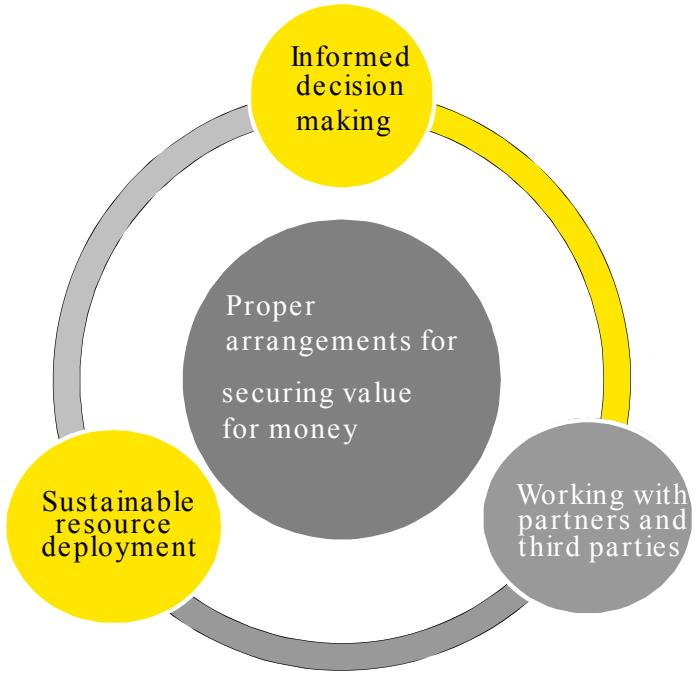
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

The NAO's auditor guidance includes specific reference to combined authorities, recognising their commissioning role and focus on partnership working.

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 have 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 no significant risks.

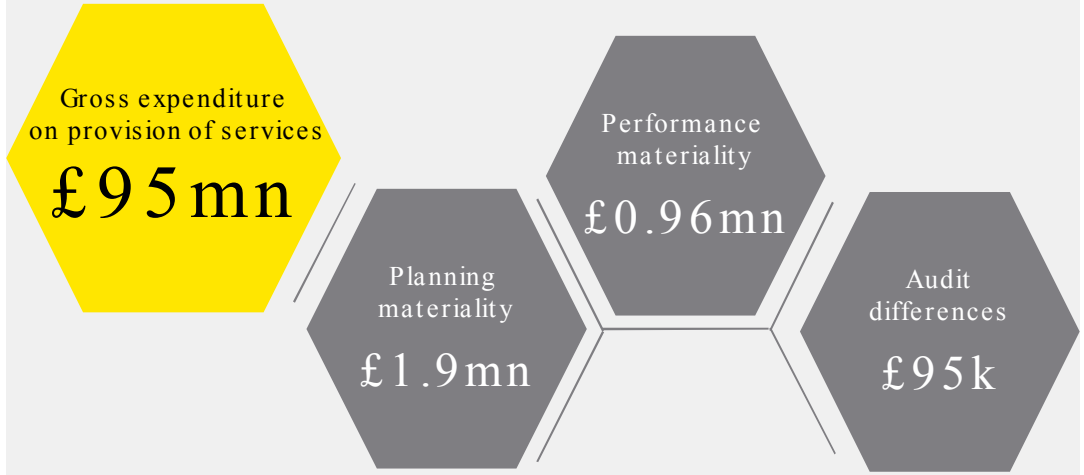


04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.9mn. This represents 2% 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 Audit & Corporate Governance 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 £0.96mn which represents 50% of planning materiality. This is lower than the prior year reflecting the errors we identified.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, HRA, and collection fund that have an effect on income or that relate to other comprehensive income. We will communicate other uncorrected misstatements, such as reclassifications and corrected misstatements to the extent that they merit the attention of the Audit & Corporate Governance Committee, or are important from a qualitative perspective.

Specific materiality – We set lower materiality levels for some disclosures e.g. remuneration disclosures , related party transactions, members' allowances 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.

05 Scope of our audit

Scope of our audit

Objective and Scope of our Audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).
We 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.
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

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

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 2017/18 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 and Corporate Governance Committee.

Internal audit - We will regularly 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.

Scope of our audit

Group scoping

For 2017/18 the Council has determined that it should consolidate both South Cambs Ltd and Shire Homes Lettings Ltd, and prepare group accounts. Our audit strategy for performing an audit of an entity components is risk based. We identify components as:

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

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

We have determined that South Cambs Ltd is a significant component due to its financial size and risk. For 2017/18 the company has appointed Ensors as auditors. We will engage with Ensors to perform a full scope audit. We have determined that Shire Homes Lettings Ltd is not a significant component based on size and risk, and we will perform other procedures to gain the necessary audit assurance.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for the component within Appendix D.

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

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit.

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

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

Specified Procedures: where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

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

06 Audit team

Audit team

Audit team structure:

Suresh Patel
Engagement Partner

Kay McClennon
Manager

Mary Springer
Senior

Use of specialists

Our approach to the involvement of specialists, and the use of their work:

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 Real Estates
Pensions disclosure	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

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 2017/18.

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

Audit phase	Timetable	Deliverables
Planning: Risk assessment and setting of scopes	January	Verbal update to January committee
Ongoing planning and meetings with key officers	February	Audit Planning Report (to be presented to committee in March 2018)
Walkthrough of key systems and processes Testing of routine processes and controls	March	
Interim audit testing	March	Interim audit update (verbal unless there are significant issues)
Early year-end testing	April	
Year end audit	July	
Audit Completion procedures	July	Audit Results Report & Audit opinions and completion certificates to the July Committee
	September	Annual Audit Letter to the September Committee

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 you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Other threats

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

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

Other communications

EY Transparency Report 2017

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 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

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 NAO Code.

	Planned fee 2017/18	Final Fee 2016/17
	£	£
Scale fee	51,975	51,975
Group scoping	5,000*	5,000*
Additional audit work	***	TBC**
Total audit	56,975	TBC**
Other non-audit services not covered above (Housing Benefits)	9,190	13,973
Total other non-audit services	9,190	13,973
Total fees	66,165	TBC*

All fees exclude VAT

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.
- 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.

* Group scoping for 2017/18 includes additional procedures on the component auditor (previously EY), the consolidation processes including a second company and auditing the group accounts.

** We are currently agreeing the final fee for the 2016/17 audit with the Executive Director before seeking final approval with PSAA.

*** In light of the significant risk relating to the preparation of the accounts, we will discuss with the Executive Director the impact of additional procedures and liaison we are required to undertake to complete the audit.

Appendix B

Required communications with the Audit & Corporate Governance Committee

We have detailed the communications that we must provide to the Audit & Corporate Governance Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit & Corporate Governance 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report
Significant findings from the audit	• 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 • Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit Results Report

Appendix B

Required communications with the Audit & Corporate Governance 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
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 Audit & Corporate Governance 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 Audit & Corporate Governance 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 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 Audit & Corporate Governance 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 & Corporate Governance Committee may be aware of	Audit Results Report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report

Appendix B

Required communications with the Audit & Corporate Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Group audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Planning Report Audit Results Report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	• 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 plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report Audit Results Report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit & Corporate Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Corporate Governance 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 Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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

Scoping the group audit

The below table sets out the scoping details. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping							
In scope components	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross Revenue Expenditure	Profit before tax	Total assets	Size	Risk
South Cambs DC	Full scope	Yes	£95mn	N/a	£570.0mn	Yes	Yes
South Cambs Limited	Full scope	No	£2.8mn	£0.3mn	£35.5mn	Yes	Yes
Shire Homes Lettings Limited	Other procedures	No	£0.07mn	£0	£0	No	No

We have determined that South Cambs Limited is a significant component based on size and risk, thereby requiring a full scope audit. We have determined that Shire Homes Lettings Limited is not a significant component, therefore we will perform other procedures to gain the necessary audit assurance. We note that it is likely that for both companies there will be an inherent risk of fraud in respect of revenue recognition. As group auditors, we will instruct the auditors or both companies to carry out procedures on the recognition of revenue.

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