

Borough Council of  
**King's Lynn &  
West Norfolk**



# **RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE**

**Tuesday 25 March 2014  
6.00pm**

Committee Suite  
King's Court  
Chapel Street  
King's Lynn  
Norfolk PE30 1EX



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Borough Council of  
**King's Lynn &  
West Norfolk**



King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX.  
Telephone: 01553 616200  
Fax: 01553 691663

12 March 2014

Dear Member

**Resources and Performance – Audit and Risk Committee**

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday 25 February 2014**, at **6.00pm** in the **Committee Suite, King's Court, Chapel Street, King's Lynn, Norfolk** to discuss the business shown below.

Yours sincerely

Chief Executive

**AGENDA**

**1. Apologies for absence**

To receive any apologies for absence.

**2. Minutes**

To approve the minutes of the Resources and Performance – Special Audit and Risk Committee meeting held on 25 February 2013 (previously circulated).

**3. Declarations of Interest**

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on an item or simply observing the meeting from the public seating area.

4. **Urgent Business Under Standing Order 7**

To consider any business which, by reason of special circumstances, the Chairman proposes to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. **Members Present Pursuant to Standing Order 34**

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

6. **Chairman's Correspondence** (if any)

7. **Matters referred to the Committee from other Council Bodies and responses made to previous Committee recommendations/requests**

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which this Panel has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

8. **External Audit Plan – Year End – 31<sup>st</sup> March 2014** (pages 1 to 20)

Members are invited to note the report.

9. **Audit and Risk Committee Work Programme** (pages 21 to 23)

Committee Members are invited to consider the attached Audit and Risk Committee's Work Programme.

10. **Date of Next Meeting**

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 29 April 2013**.

**To: Panel Members** – Councillors P Beal (Chairman),  
C Manning (Vice-Chairman), D J Collis, J Collop, P Cousins,  
I Gourlay, M Hopkins, H Humphrey, M Langwade, A Morrison,  
D Tyler, G Wareham, T de Winton, A Wright and Mrs S Young

**Portfolio Holders:**

**Item 8 – Councillor Daubney** – Leader of the Council and Portfolio Holder for Resources

**Appropriate Officers:** The following officers are invited to attend in respect of the Agenda item shown against their name:

Item 8 – Lorraine Gore – Chief Financial Officer

**Chief Executive**

**Deputy Chief Executive and Executive Director, Finance and Resources**

**All other Executive Directors**

**Press**

Dave Thomason  
Executive Director of Finance & Resources  
Borough Council of King's Lynn & West Norfolk  
King's Court  
Chapel Street  
King's Lynn  
Norfolk, PE30 1EX

12 March 2014

Direct line: 01223 394485

Email: rmurray@uk.ey.com

Dear Dave

## **Borough Council of King's Lynn & West Norfolk - 2012/13 Housing and Council Tax Subsidy Benefit certification fee**

We issued our formal 'Certification of grants and returns annual report' on the 28 January 2014 to report the outcome from our audit work on your grant claims. Within this report, we set out the final audit fees in respect of those claims, subject to any variations yet to be agreed by the Audit Commission.

The Audit Commission has now formally approved the remaining audit scale fee variation of £7,514 in relation to the Housing and Council Tax Subsidy Benefit claim.

As a result, we need to confirm the reported scale fees with our certification of grants and returns annual report, to report accurately the final fee position. Rather than re-issue the report, which has been through the committee cycle, we summarise the impact of this change below.

Claim or return	2011-12 Actual fee £	2011-12 2011-12 fee less 40% reduction £	2012-13 Indicative fee £	2012-13 Actual fee (final) £
Housing and council tax benefits subsidy claim	49,440	29,664	28,030	35,544
National non-domestic rates return	3,500	2,100	2,070	7,419
<b>Total</b>	<b>52,940</b>	<b>31,764</b>	<b>30,100</b>	<b>42,963</b>

I would be grateful if you could arrange for this letter to be included as part of the next Audit and Risk Committee agenda, for completeness for Members.

We will make the necessary arrangements to invoice the additional £7,514 audit fee to you.

Yours sincerely

Rob Murray  
Director  
Ernst & Young LLP  
United Kingdom

cc Lorraine Gore, Chief Accountant  
Jo Stanton, Revenues and Benefits Manager

# Borough Council of King's Lynn and West Norfolk

Year ending 31 March 2014

Audit Plan

6 March 2014







Audit and Risk Committee  
Borough Council of King's Lynn & West Norfolk  
King's Court  
Chapel Street  
King's Lynn  
Norfolk  
PE36 1EX

6 March 2014

Dear Members,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Borough Council of King's Lynn & West Norfolk, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 25 March 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Murray  
For and behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Overview

## 1.1 Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Borough Council of King's Lynn & West Norfolk give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Borough Council of King's Lynn & West Norfolk 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 your Whole of Government Accounts return.

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.
- ▶ Management's views on all of the above.

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

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

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks.

We will provide an update to the Audit and Risk Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

Details of our process and strategy are set out in more detail in section 4.

## 2. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the entity’s operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Nar Ouse Regeneration Agreement</b>	
<p>The Council entered into a joint arrangement (The King’s Lynn Development Partnership) with Norfolk County Council to develop land at the Nar Ouse regeneration site (NORA). This arrangement was considered to be a jointly-shared asset in the 2012/13 financial statements. Spend on the project has increased during 2013/14 and the first stage of housing development is scheduled to be well progressed by 31 March 2014.</p> <p>The Council plans to sell these houses or lease them if sales are unachievable. As the development moves into this next phase, the accounting for completed and partially completed properties needs to be finalised (for example whether such assets are accounted for as assets in the course of construction, investment property or inventory), and the appropriate valuation basis determined.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The Councils assessment of the type of asset that the partially complete properties constitute, the appropriateness of this under the CIPFA Code of Practice and the reasonableness of estimation techniques used in their valuation.</li> <li>▶ Affirmation of the powers under which the Council is developing the houses for sale/rental on the private sector market</li> <li>▶ Affirmation of the compliance with the Prudential Code for borrowings associated with the development.</li> <li>▶ The Council’s updated view on the assessment of the arrangement under IAS 31, Interests in Joint Ventures, to ensure that the accounting treatment is correct and that there are no implications for group accounts requirements.</li> </ul>
<b>Localisation of business rates</b>	
<p>There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting arrangements are not yet clear and this currently presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to make accounting provision for rating appeals. This includes not only claims from 1 April 2013, but claims that relate to earlier periods. As appeals are made to the Valuation Office, the Council may not be aware of the level of claims and may find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>▶ The detailed accounting for business rates to ensure that the Council’s financial statements are materially accurate and compliant with the CIPFA Code of Practice.</li> <li>▶ The Council’s provision for business rate appeals to ensure calculated on a reasonable basis in line with IAS 37. As part of this we will consider the evidence to support the provision, and that the level of estimation uncertainty is appropriately disclosed in the financial statements.</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for</li> </ul>

otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

- ▶ evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

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### **Respective responsibilities in relation to fraud and error**

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ 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.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

### 3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at the Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have undertaken a high level risk assessment of the risks relevant to our value for money conclusion, taking into account the Audit Commission guidance. We have not currently identified any significant risks requiring specific risk-based work. We will keep our risk assessment under review taking into account: our discussions with the Council; our review of reports and minutes; the results of Internal Audit work; our opinion and certification work; review of the Annual Governance Statement; and the work of other regulators.

The Council continues to explore and progress a number of alternative ways to deliver services, make cost savings and generate capital and revenue funding. Many of these ongoing developments, such as the leisure trust and the progression of a major housing development, do not have a significant impact on the Council's use of resources in 2013/14, but will become increasingly significant for my risk assessment in future years. The Council has rightly recognised the need to ensure that such developments are carried out within its powers.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

#### 4.1.2 Financial statement audit

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

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

#### 4.1.3 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 4.2 Audit process overview

#### 4.2.1 Processes

Our audit involves:

- ▶ Assessing the key internal controls in place and, where we consider it appropriate to do so, testing the operation of these controls
- ▶ Review and re-performance of the work of Internal Audit where appropriate
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and property valuations
- ▶ Substantive tests of detail of transactions and amounts

We did not adopt a controls based approach to the 2012/13 audit which was the first year of our engagement. Instead we tested material items of account substantively at the year end. We have determined that for 2013/14 we will continue the substantive approach to the audit. We consider errors detected in the prior year when setting our audit strategy. As we detected more errors than anticipated in last year's audit we have determined that this would necessitate a significant degree of 'top up' substantive audit work even if a controls approach were adopted to ensure that similar errors are not repeated. For 2013/14 a mixed controls/substantive approach is therefore considered unlikely to prove to be a more efficient strategy than a fully substantive approach. Whilst we have to plan our audit on the basis that errors could recur, we understand that officers have improved controls and processes in a number of areas. We therefore expect not to encounter the same level of errors found in the 2012/13 audit. It is also likely that we will not need to repeat work in some areas reviewed in 2012/13. Because of this we consider that our decision to undertake a substantive approach should not impact our ability to deliver the audit for the scale fee.

Whilst we seek to place reliance on the work of Internal Audit wherever possible, because of our planned substantive approach we will not be placing direct reliance on Internal Audit's work for 2013/14. However, Internal Audit form an important part of your overall control environment, reflected in your Annual Governance Statement, and we take their findings into account when determining any specific risks for our work.

We will continue to keep the strategy under review for future audits.

#### **4.2.2 Analytics**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and 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 Risk Committee.

#### **4.2.3 Internal audit**

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

#### **4.2.4 Use of experts**

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and valuations.

#### **4.2.5 Mandatory procedures**

##### ***Mandatory procedures required by auditing standards on:***

In addition to the financial statement risks outlined in section 2, we have to 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.

- ▶ Addressing the risk of fraud and error. Significant disclosures included in the financial statements.



- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

***Procedures required by the Code on:***

- ▶ 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.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

### **4.3 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence 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 have not yet finalised our overall materiality for the Council's financial statements, but this will be set in the range of between £0.95 million and £1.9 million based on 1% and 2% of gross operating expenditure. We will communicate our final materiality levels to members at a future committee meeting.

We will communicate uncorrected audit misstatements greater than 5% of materiality to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all 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 financial statements, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

### **4.4 Fees**

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Borough Council of King's Lynn and West Norfolk is £67,488.

Officers have recently engaged us to provide a workshop on group accounting. The fee for this non-audit service is £1,750.

### **4.5 Your audit team**

The engagement team is led by Rob Murray, who has significant experience of the audit of District Councils. Rob Murray is supported by Helen Devlin who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

### **4.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the audit committee cycle in 2014. These dates are

determined to ensure our alignment with the Audit Commission’s rolling calendar of deadlines.

We will provide a formal report to the Audit and Risk Committee in September incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit and Risk Committee Chairman as appropriate. We understand that our formal report will also be taken to the September Cabinet meeting due to their role in approving the financial statements.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit and Risk Committee timetable	Deliverables
High level planning:	<b>March/April 2013</b>	Audit and Risk Committee	Audit Fee letter
Risk assessment and setting of scopes	<b>January to March</b>	Audit and Risk Committee	Audit Plan
Testing of routine processes and controls	<b>January to March</b>		
Year-end audit	<b>July – August</b>		
Reporting	<b>September</b>	Audit and Risk Committee	Report to those charged with governance  Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).  Audit completion certificate
Reporting	<b>October</b>		Annual Audit Letter
Reporting	<b>February 2015</b>	Audit and Risk Committee	Annual report on the certification of grant claims and returns

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters where appropriate.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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.

## 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

### 5.2.1 Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with 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 and that are in compliance with the Audit Commission's Standing Guidance. Officers have recently engaged us to provide a workshop on group accounting. The fee for this non-audit service is £1,750. We do not consider that this poses any threats to our independence. The workshop will take place in March 2014.

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 4.

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

### 5.2.2 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. We have considered the provision of the workshop on group accounting when reaching this conclusion as discussed above.

### 5.2.3 Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service 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. We have considered the provision of the workshop on group accounting when reaching this conclusion as discussed above.

### 5.2.4 Other threats

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

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

### 5.2.5 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 Rob Murray, your audit engagement director and the audit engagement team have not been compromised.

### **5.3 Other required communications**

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

Details of the key policies and processes 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 28 June 2013 and can be found here: [UK 2013 Transparency Report](#)

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14 £	Actual Fee 2012/13 £	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>67,488</b>	<b>90,480</b>	<b>Scale fee variation of £22,992 agreed for 2012/13 due to the need for additional audit work</b>
Certification of claims and returns*	29,700	42,963	<b>Scale fee variation of £12,863 agreed for 2012/13 due to the need for additional work. In addition, no certification work is required for NNDR in 2013/14</b>
Non-audit work – provision of workshop on group accounting	1,750	-	

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

- ▶ Officers meeting the agreed timetable of deliverables, including good quality working papers and documentation;
- ▶ Reliance can be placed on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ Effective control environment;
- ▶ The Council has addressed the issues identified in the 2012/13 audits such that any audit adjustments/errors are minimal;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our financial statements opinion and use of resources conclusion being unqualified; and
- ▶ Prompt responses are provided to draft audit reports.

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

The scale fee is expected to cover the auditor's work in dealing with a basic level of consideration of enquiries to the auditor from members of the public. Depending on the nature and complexity of the issues covered, if significant additional work is required we will charge time spent in addition to the scale fee. In such circumstances, such additional fees would be subject to approval by both officers and the Audit Commission.

\*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Report to those charged with governance
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Report to those charged with governance
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit and risk committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Report to those charged with governance
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Report to those charged with governance
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Report to those charged with governance
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ 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</li> </ul>	Report to those charged with governance

Required communication	Reference
<p>off</p> <ul style="list-style-type: none"> <li>▶ Enquiry of the audit and risk 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 and risk committee may be aware of</li> </ul>	
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the audited body and senior management</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the ethical standards</li> <li>▶ The audit and risk committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Report to those charged with governance</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Report to those charged with governance</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan</p> <p>Reports to those charged with governance and Annual Audit Letter if considered necessary</p>



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## AUDIT AND RISK COMMITTEE WORK PROGRAMME 2013/2014

### **10 June 2013**

- Final Accounts and Statement of Accounts for year ended 31 March 2013
- Quarterly Progress Final Report 2012/2013
- National Fraud Initiative – Update on Work

### **25 June 2013**

- Internal Audit Annual Report 2012/2013
- Review of the Effectiveness of Internal Audit Service/Internal Audit Terms of Reference Update
- Risk Management

### **23 July 2013**

- Audit and Risk Effectiveness Review
- Benefit Investigations Unit Annual Report

### **27 August 2013**

- 1<sup>st</sup> Item Annual Governance Statement (Training session 30 minutes to which all Members will be invited to attend)
- Quarterly Progress Update Quarter 1 2013-2014
- Business Continuity – Annual Update

### **9 September 2013**

1<sup>st</sup> Item – Statement of Accounts – training session – open to all Members 1 hour)  
 Special Meeting – to consider the Statement of Accounts 2012/2013  
 Annual Governance Statement

### **24 September 2013**

No meeting

**29 October 2013**

- Internal Audit Plan 2013/2014 – Progress report for the quarter July to September 2013
- Internal Audit Benchmarking Exercise
- Proposed Audit and Fraud Team
- Corporate Risk Register

**26 November 2013**

- Benefit Investigations Unit Half-Year Report – S Munson
- Annual Audit Letter – to be presented by the Council's External Auditor

**7 January 2014** – No meeting**27 January 2014** – No meeting**25 February 2014**

- Annual Certification of Claims and Returns – 2012/13 draft report.
- Quarterly Progress Report Quarter 3 2013-2014
- Strategic Internal Audit Plan 2014-2015
- Cabinet Report: Treasury management 2014/2015

**25 March 2014**

- External Audit Plan Year End 31 March 2014

**29 April 2014**

- 1<sup>st</sup> Item -Fraud Documents – (5.30 mins training session – all Members invited to attend)
- Benefits and Revenues Fraud Policy
- Corporate Risk Monitoring Report (October 2013 to March 2014)
- Internal Audit – Strategic Audit Plan 2014/15

**Forthcoming Items**

Business Continuity/Emergency Planning Training (45 mins) – 1<sup>st</sup> item – training session – open to all Members) – date to be determined.

Business Continuity – Annual Update

BCKL&WN Audit Plan 2014/2015 (external)