

A photograph showing several people's hands and arms as they sit around a white table, looking at and pointing to various documents. One person is wearing a yellow long-sleeved shirt and a watch. Another person is wearing a white shirt. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or meeting environment.

# South Derbyshire District Council Audit planning report

Year ended 31 March 2019

March 2019



Private and Confidential

Audit-Sub Committee

South Derbyshire

Civic Way

Swadlincote

DE11 0AH

Dear Committee Members

11 March 2019

Audit planning report 2018/19

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 Audit-Sub Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit-Sub 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 20 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Steve Clark

For and on behalf of Ernst & Young LLP

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# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit-Sub Committee and management of South Derbyshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of South Derbyshire 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-Sub Committee and management of South Derbyshire 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 2018/19 audit strategy





# Overview of our 2018/19 audit strategy

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

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure	Fraud 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. Further details are provided on page 9.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. Further details are provided on page 10.
Cut-off error	Significant risk	New risk	In 2017/18 we identified a material cut-off error and as such have deemed this an area of focus. Further details are provided on page 11.
Valuation of land and buildings	Other financial statements risk	No change in risk or focus	PPE accounts for a significant proportion of the Council's assets (£142m at 31 March 2018). The valuation of land and buildings is subject to a number of assumptions and judgements, and a small movement in these assumptions could have a material impact on the financial statements. Further details are provided on page 12.
Valuation of the Pension liability	Other financial statement risk	No change in risk or focus	Funding of the Council's participation in the LGPS will continue to have an impact on both its cash flows and the liability in the balance sheet. The Council is a member of the LGPS, administered by Derbyshire Pension Fund. The net pension liability was £32m as at 31 March 2018. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. A small movement in these assumptions could have a material impact on the value in the balance sheet. The 2017/18 audit identified that the Council's share of the asset was understated by £0.26m, Both these be an area of audit focus. Further details are provided at page 13.

## Overview of our 2018/19 audit strategy

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

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
IFRS 9 - Financial statements	Other financial statement risk	New risk	These are new accounting standards applicable for local authority accounts from for the 2018/19 financial year. There is a risk that the Council does implement the requirements of the standards correctly. Further details of the risk are provided at page 14.
IFRS 15 - Revenue contracts with customers	Other financial statement risk	New risk	

# Overview of our 2018/19 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 Derbyshire District Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

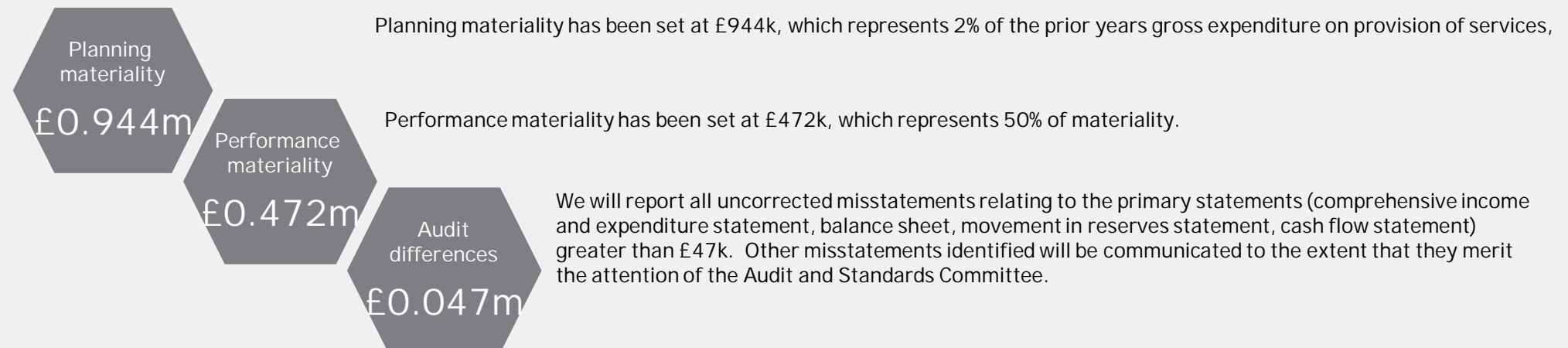
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and,
- § Management's views on all of the above.

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

## Materiality





## 02 Audit risks





## Our response to significant risks

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

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

### Financial statement impact

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

### What is the risk?

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.

Due to the nature and value of some streams revenue and expenditure we do not consider the risk of fraud to apply to the following sources of Council revenue and expenditure;

- Income from Central Government grants.
- Council Tax income
- Business rate income
- Payroll
- Housing benefit income and expenditure

In respect of expenditure we consider the risk is focussed on the incorrect capitalisation of revenue expenditure.

### Our audit approach

We will undertake substantive procedures in response to this risk;

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; and
- Test a sample of property, plant and equipment additions which have been included in the balance sheet to confirm that they have been correctly capitalised in accordance with accounting standard IAS 16 and the Council's PPE recognition accounting policy.

## Our response to significant risks (continued)

Misstatements due to fraud or error

### 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) 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.

### Our audit approach

We will undertake substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;

- Identifying fraud risks during the planning stage of the audit;
- Inquiries 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, including testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Sample testing of journals from the accounting period that are identified from application of specified audit risk criteria;
- Consider the existence of significant unusual transactions during the year and performing review and testing as required;



## Our response to significant risks (continued)

Risk of cut-off error	What is the risk?	Our audit approach
	<p>In the 2017/18 audit results report we confirmed that our audit testing identified a material error relating to the overstatement of both trade payables and cash and bank.</p> <p>The absence of adequate cut-off arrangements at year may give rise to transactions being accounted for in the incorrect financial year.</p>	<p>We will undertake substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;</p> <ul style="list-style-type: none"><li>• Document our understanding of the Council's processes and controls in place to mitigate the risks.</li><li>• Sample testing of revenue and liability cut-off at the period end date.</li><li>• Conduct testing to identify unrecorded liabilities at the year-end.</li></ul>

## 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?	Our audit approach?
<p><u>Valuation of land and buildings</u></p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.</p> <p>The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>The Council land and building assets are annually valued, and are subject to a number of assumptions and judgements, which if inappropriate could result in a material impact on the financial statements</p>	<p>We will;</p> <ul style="list-style-type: none"> <li>• Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding</li> <li>• Evaluate the competence, capabilities and objectivity of management's specialist.</li> <li>• Review the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population;</li> <li>• Consider the work performed by the Council's external valuer, including the adequacy and scope of the work performed.</li> <li>• Perform a sample test the asset data used by the valuer over the completeness and appropriateness of information provided to the valuer in performing their valuations (e.g. floor plans to support valuations based on a price attributed to area measurements);</li> <li>• Review the classification of assets and ensure the correct valuation methodology has been applied.</li> <li>• Consider changes to useful economic lives as a result of the most recent valuation; and</li> <li>• Test the accounting entries have been correctly processed and recorded in the financial statements.</li> </ul>



## 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?	Our audit approach?
<p><u>Pension Liability Valuation</u></p> <p>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 Derbyshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £32 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.</p> <p>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.</p> <p>In 2017/18, the Council's share of the pension scheme assets was understated by £0.26m primarily as a result of the timing of the actuary's work.</p>	<p>We will;</p> <ul style="list-style-type: none"> <li>• Perform appropriate tests to obtain assurance over the information provided to the actuary.</li> <li>• Write to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit.</li> <li>• 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</li> <li>• Consider the variation in the valuation of the pension fund assets used in the Council's actuarial valuation to the actual year-end asset valuation in order to determine whether the estimate was materially correct; and</li> <li>• Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>

## 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?	Our audit approach
<p><u>IFRS 9 - financial instruments</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets are calculated; and</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;</li> <li>• Consider the classification and valuation of financial instrument assets;</li> <li>• Review new expected credit loss model impairment calculations for assets; and</li> <li>• Check additional disclosure requirements.</li> </ul>
<p><u>IFRS 15 – Revenue contracts with customers</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. If the Council has not assessed if standard is relevant, there may be a risk of material misstatement if recognition of revenue is incorrect and new disclosure requirements are not included in the financial statements.</p>	<p>We will;</p> <ul style="list-style-type: none"> <li>• Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include where relevant, any Local Authority Trading Companies consolidated into the Authority's Group Accounts</li> <li>• Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and</li> <li>• Check additional disclosure requirements are correctly included.</li> </ul>





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# Value for Money Risks





## Background

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

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

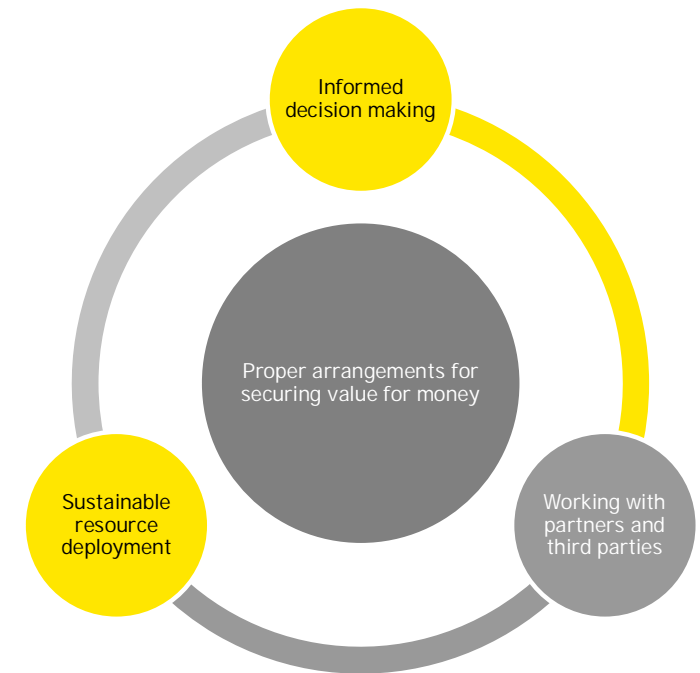
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by South Derbyshire District Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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





## Value for Money Risk

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience	<p>From the medium term financial plan, updated in February 2019, the Council has forecasted budget deficits from 2019/120 to 2023/24 with the general fund depleting from £9.1m to £2.1m but remaining above the £1m minimum level.</p> <p>Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings of £0.4m in 2019/20 rising to £1.5m in 2023/24.</p>	<p>We will focus on:</p> <ul style="list-style-type: none"> <li>§ Reviewing the MTFS including the adequacy of major assumptions</li> <li>§ Reviewing the Council’s arrangements to develop a robust savings plan to address the future financial challenges.</li> </ul>
Procurement and related contract issues in the Housing and Environment Services Directorate	<p>In our 2017/18 Audit Results Report, we reported that the value for money conclusion was qualified on the basis management had yet to fully implement the Internal Audit recommendations relating to the control weaknesses in the procurement and contract management arrangements in the Housing and Environment Services Directorate. We have therefore determined that the risk in this area remains relevant for the financial year.</p>	<p>We will focus on;</p> <ul style="list-style-type: none"> <li>§ Reviewing the outcomes of the work undertaken by Internal Audit to establish if the recommendations have been fully implemented by management</li> <li>§ Understanding, if there are any incomplete recommendations, the extent of and impact they have on system of internal control and managements plans to address them</li> <li>§ Review the adequacy of managements governance arrangements to move to a shared procurement service.</li> </ul>





04

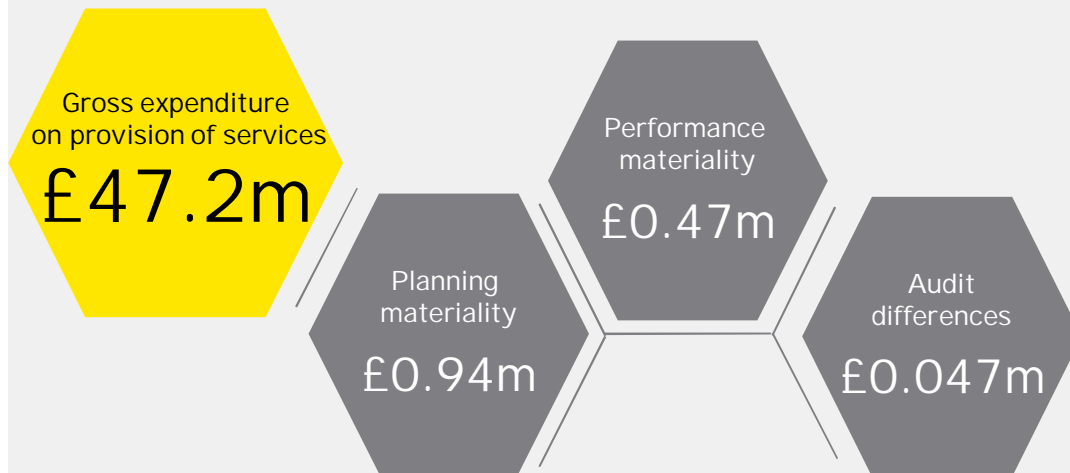
# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2018/19 has been set at £0.94m. 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 D.



We request that the Audit-Sub 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 £m which represents 50% of planning materiality

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit-Sub Committee, or are important from a qualitative perspective.

**Specific materiality** – We have also identified the following areas where misstatement at a lower level than our overall materiality level might influence the reader of the financial statements. The areas identified in our audit strategy applied include: Related

- We assess the Remuneration disclosures including any severance payments, exit packages and termination benefits as numerically sensitive and set a materiality level of £1k, being the rounding number in the financial statements.
- Related party transactions. For any errors identified in related parties we considered the concept of the materiality of transactions and balances as would relevant to the related individual or organisation.
- External audit fees: we set a materiality of £1k being the rounding number in the accounts.
- Members' allowances; a figure of £1k is judged appropriate.
- Cash and bank balances: given the inherent risk we have set a materiality level of £0





05

# Scope of our audit





## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

#### 1. Financial statement audit

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

##### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

##### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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

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

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

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

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit-Sub Committee.

Internal audit:

We do not plan to place reliance on the work of internal audit however we will review internal audit plans and the results of their work. Should the results have a potential consequence on the year-end financial statements, we will assess the impact on our audit strategy and update the Audit-Sub Committee should our risk assessment change.

### 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?

##### Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year which required the Council to prepare and approve the accounts by 31 May and 31 July 2018, respectively.

Whilst these changes provided risks for both the preparers and the auditors of the financial statements, the earlier deadlines for 2017/18 were fully achieved.

These deadlines apply to 2018/19 and we have met with management to discuss the outcomes from the 2017/18 audit in order to make improvements and plan effectively for the current year audit.

To ensure the audit 2018/19 audit is completed efficiently we have agreed the following points with the Finance team;

- Production of a detailed audit project plan to monitor with the finance team
- Early communication of emerging issues
- Production of good quality draft financial statements
- Prepare high quality supporting working papers in advance of the commencement of the year-end audit;
- Ensure that appropriate Council staff to be available throughout the agreed audit period;
- complete and prompt responses to audit questions.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. It should be noted that these circumstances may result in a delay to your audit while we complete other work elsewhere.

#### Our audit approach

We will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Continue to operate the EY Client Portal facility:
  - 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.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.





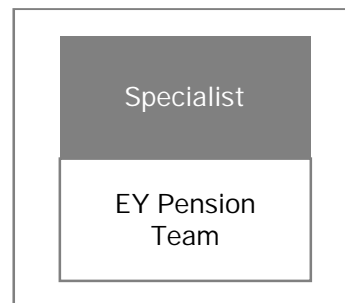
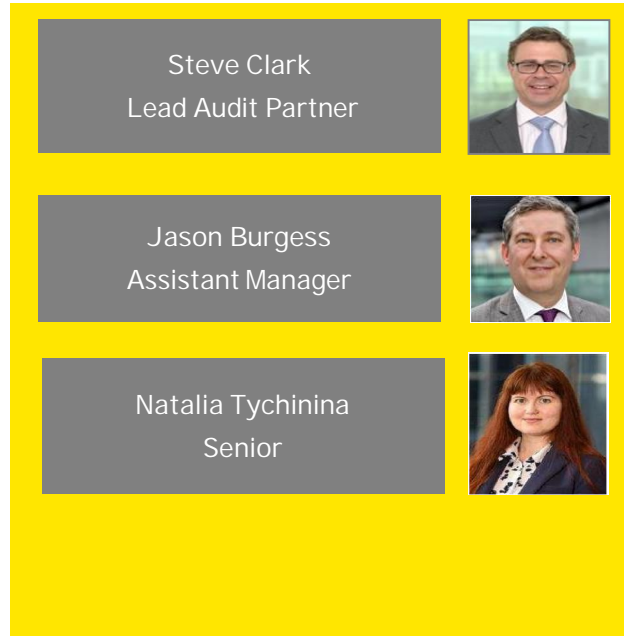
06

Audit team



# Audit team

Audit team structure:



\* Key Audit Partner

## 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	Council's external valuer
Pensions disclosure	PSAA consulting actuary, the actuary of the Staffordshire Pension Fund and EY Pension Team.

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.





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# Audit timeline







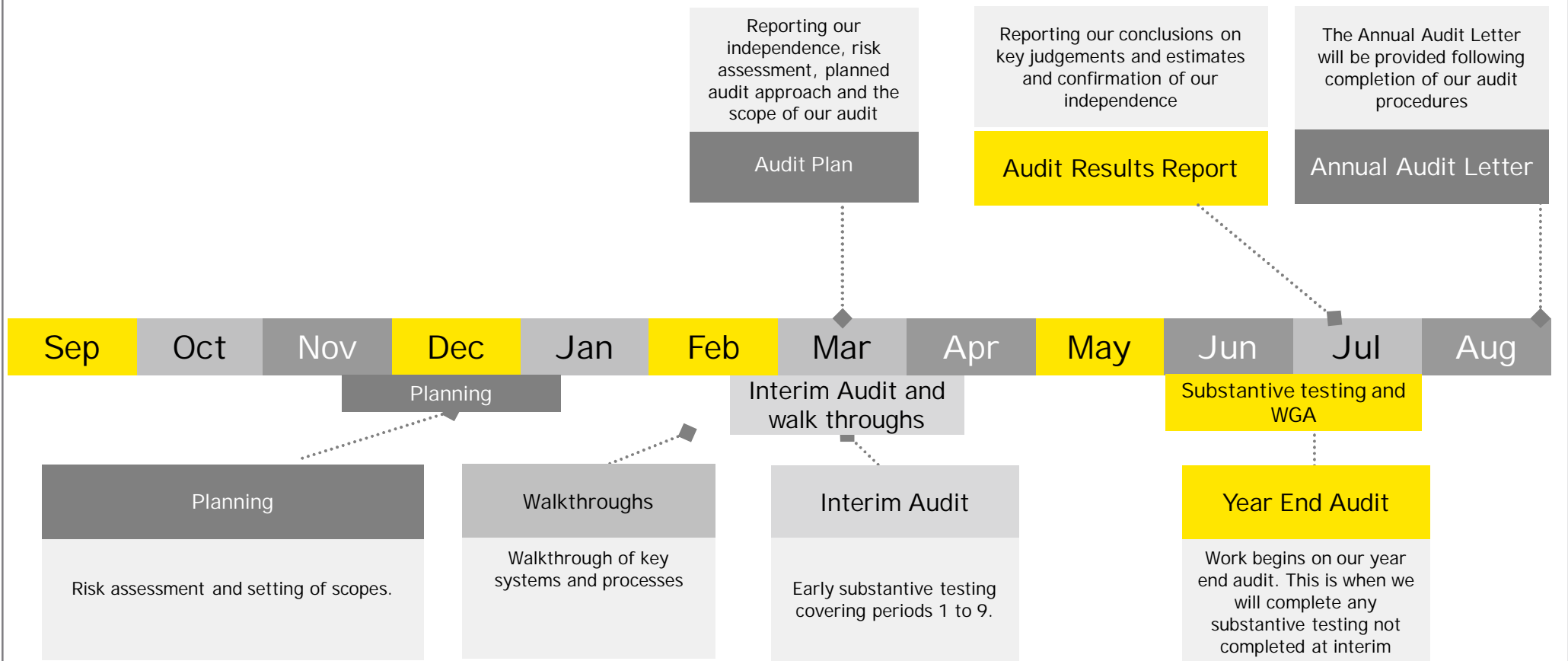
# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

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





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# Independence



## Introduction

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

### Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (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> <li>▶ 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]</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ 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;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; 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.

## Relationships, services and related threats and safeguards

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

### Overall Assessment

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

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

At the time of writing, the current ratio of non-audit fees to audit fees is approximately NIL. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

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

### Self review threats

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

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

### Management threats

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

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



## Relationships, services and related threats and safeguards

### Other threats

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

## Other communications

### EY Transparency Report 2018

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

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

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



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## Appendices



## Appendix A

### Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Audit Fee - Code work	37,941	37,941	50,945
<b>Total audit fee - code work</b>	<b>37,941</b>	<b>37,941</b>	<b>50,945</b>
Other non-audit services not covered above (Housing Benefits)	15,500	0	16,313
Other non-audit services not covered above (Pooling of Housing Capital receipts)	TBC*	0	1,680
<b>Total other non-audit fees</b>	<b>15,500</b>	<b>37,941</b>	<b>17,993</b>
<b>Total fees</b>	<b>53,441</b>	<b>37,941</b>	<b>68,938</b>

*All fees exclude VAT*

\* We have recently completed the working for the 2017/18 pooling of housing capital receipts return. We will discuss the arrangements for the 2018/19 return with the Strategic Director (Corporate Resources).

All fee variations are subject to approval by PSAA.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.






## Appendix B

# Required communications with the Audit-Sub Committee

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




		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit-Sub 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 (March 2019)
Significant findings from the audit	<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>	Audit results report (July 2019)

## Required communications with the Audit-Sub Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<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>	Audit results report (July 2019)	
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report (July 2019)	
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit-Sub 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>	Audit results report (July 2019)	
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <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>	Audit results report (July 2019)	

## Appendix B





# Required communications with the Audit-Sub 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: <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>	Audit Planning Report (March 2019) Audit Results Report (July 2019)
External confirmations	<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>	Audit results report (July 2019)
Consideration of laws and regulations	<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 off</li> <li>• Enquiry of the Audit-Sub 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-Sub Committee may be aware of</li> </ul>	Audit results report (July 2019)
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report (July 2019)



## Appendix B

# Required communications with the Audit-Sub Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (July 2019)	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (July 2019)	
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor's report</li> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report (July 2019)	
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit plan is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	Audit planning report (March 2019) Audit results report (July 2019) Annual Audit Letter (Sept/Oct 2019)	
Certification work	Summary of certification work undertaken	Certification report (March 2020)	

## Additional audit information

### Other required procedures during the course of the audit

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

#### Our responsibilities required by auditing standards

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

### Purpose and evaluation of materiality

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

Materiality determines:

- The 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.