Agenda Item 7

East Cambridgeshire District Council

Audit Planning Report

Year ended 31 March 2019

December 2018

Building a better working world

December 2018

East Cambridgeshire District Council
The Grange, Nutholt Lane
Ely
Cambridgeshire
CB7 4EE

Dear Members of the Resources and Finance Committee Members,

Outline Audit Plan for discussion

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your external auditor. Its purpose is to provide the Resources and Finance 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 Resources and Finance 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 28 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated 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 Resources and Finance Committee and management of East Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Resources and Finance Committee and management of East Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Resources and Finance Committee and management of East Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 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 Resources and Finance 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			
Risk	Risk identified	Change from PY	Details
Management Override: Misstatements due to fraud or error	Fraud risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus, but shown separately	Linking to the management override risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) as a separate risk, given the extent of the Council's capital programme.
Accounting for Property, Plant and Equipment (PPE)	Inherent risk	No change in risk or focus	PPE represents a significant balance of almost £34.285 million in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate PPE asset valuations held in the statement of accounts.
Pension valuations and disclosures	Inherent risk	No change in risk or focus	The pension liability (£22.366 million at 31 March 2018) continues to be an area of significant estimate and judgement.

In addition to the above risks, we will continue to work with the Finance team to strengthen arrangements for accounts closedown, working papers preparation and dealing with audit queries to help enable the Council to meet statutory reporting deadlines.

Overview of our 2018/19 audit strategy

In addition to the risks outlined above we have identified two areas of audit focus.

Area of focus	Change from PY	Details
Group accounts	Additional company to consolidate	The Council conducts an annual review to consider its group boundary and whether its interests in private companies are material; and consequently whether they need to be consolidated into the group financial statements. For 2018/19 the Council has determined that it will consolidate East Cambridgeshire Street Scene (ECSS). We have identified as a component that we will seek to consider the work of its auditor in gaining assurance over the consolidated items of account. This will be an additional to the scope of our audit and require an additional audit fee which we outline in Section 9.
New accounting standards	New area of focus	For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.
New payroll arrangements	New area of focus	The Council has changed its payroll provider for 2018/19. We will seek to understand and evaluate the Council's arrangements for obtaining assurance that the new provider has the appropriate controls in place to provide materially accurate and complete payroll information.

Value for money conclusion
We have identified a significant risk in respect of the financial resilience of the Council and its ability to close the budget gaps it has identified for 2020/21 and 2021/22 in its medium term financial plan. We will carry out procedures to enable us to form a conclusion on the Council's value for money arrangements.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£0.855m

We have set materiality at £0.855 million, which represents 2% of the prior year's gross expenditure on the provision of services plus financing and investment expenditure.

Performance materiality
£0.427m

In light of the number of errors we identified in the prior year's accounts and our expectations of misstatements, we have reduced our performance materiality from 75% to 50% of planning materiality. As a result, our performance materiality has fallen from £0.603 million in 2017/18 to £0.427 million. This will increase the testing we will need to carry out on the accounts and result in an additional fee. We provide an indication of the impact in Section 9.

Audit differences
£0.042m

We will report all uncorrected misstatements in the primary statements and associated notes (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, the cash flow statement and collection fund) greater than £0.042 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Resources and Finance Committee.

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 the circumstances that might ultimately influence our judgement. 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 any audit misstatements, and our evaluation of materiality at that date.

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 East Cambridgeshire 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.

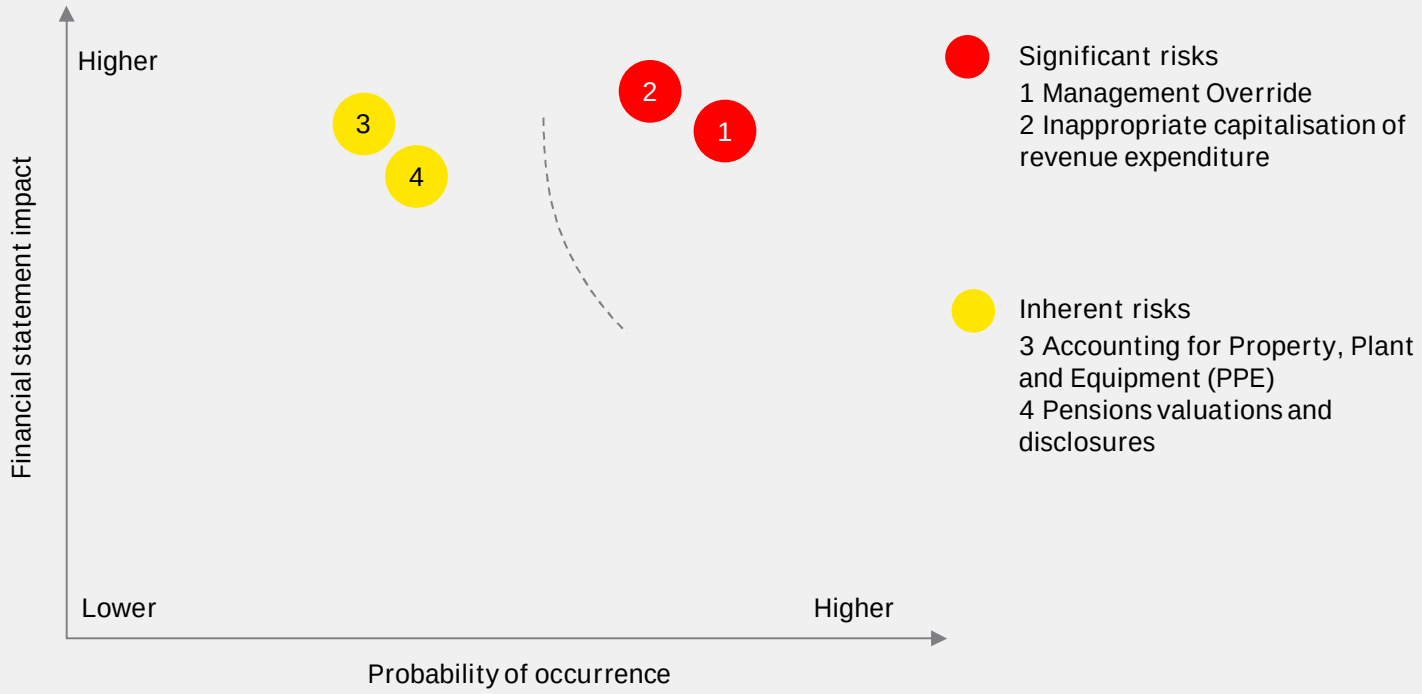
02 Audit risks

Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017/18 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit for 2018/19.

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



Our response to significant risks

We have set out the significant risks (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.

	What is the risk?	What will we do?
Management override: Misstatements due to fraud or error	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. Linking to our risk of management override we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (see below).	In order to address this risk we will carry out a range of procedures including: • 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. • Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. • Review critical judgements made by management in applying accounting policies. • Assess management's assumptions made about the future regarding major sources of uncertainty.

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.

Inappropriate capitalisation of revenue spend

Financial statement impact

Misstatements that occur in relation to the risk of fraud in inappropriate capitalisation of revenue expenditure could affect the income and expenditure accounts. These accounts had the following balances in the 2017/18 financial statements:

Income Account: £45.1 million

Expenditure Account: £42.8 million

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).

As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Other areas of risk

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?	What will we do?
Accounting for Property, Plant and Equipment The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet for land and buildings in particular. The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. For 2018/19 the Council has some specific PPE valuations, including bringing into use The Hive Leisure Centre. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements.

Other areas of risk

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?	What will we do?
Pensions valuation and disclosures The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £22.366 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to East Cambridgeshire District Council; • Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

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 area of focus?	What will we do?

Preparation of the financial statements, working papers and dealing with the audit
 	
In the prior year, the first year of earlier reporting deadlines, the Council was unable to publish it's audited financial statements until early August, just after the 31 July deadline. The Council now has less time to prepare the financial statements and supporting working papers and, as your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit.
 	
The Council needs to ensure that it has a closedown plan in place that enables it to:
• Prepare good quality draft financial statements and supporting working papers by the agreed deadline; and
• Deal effectively with the year end audit.
	We will:
	• Work with the Council to engage early to facilitate early substantive testing where appropriate.
	• Invite the finance team to an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
	• Work with the Council to implement the use of EY Client Portal, this will:
	  • Streamline our audit requests through a reduction of emails and improved means of communication;
	  • Provide on–demand visibility into the status of audit requests and the overall audit status;
	  • Reduce risk of duplicate requests; and
	  • Provide better security of sensitive data.
	• 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.

Other areas of audit focus (continued)

What is area of focus?	What will we do?
Group consolidation The Council has determined that for 2018/19 it will consolidate East Cambridgeshire Street Scene into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of the new component.	We will: • Review the arrangements and controls the Council will put in place to consolidate ECSS. • Carry out procedures to gain assurance over the work of the auditor of ECSS.
New accounting standards The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19. These standards are: ► IFRS 9 – Financial instruments ► IFRS 15 – Revenue from contracts There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.	We will: • We will engage early with the Council on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Council's proposed accounting and disclosures. • If we need to undertake additional audit procedures on the Council's assessments we will discuss with the Finance Manager the impact on our audit fee.
New payroll arrangements For 2018/19 the Council has changed its payroll provider and needs to ensure it has arrangements in place to gain assurance over the controls and processes adopted by the new provider.	We will: • Review the adequacy of the Council's assurance arrangements over the new provider, ensuring the material accuracy and completeness of payroll information in the financial statements.

03 Value for Money Risks

Value for Money

Background

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

For 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 will include consideration of the steps taken by the 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 local 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 the significant risk noted on the following page which we view as relevant to our value for money conclusion. We will continue to update our assessment of risks associated with value for money throughout the audit and will update you if any additional risks are identified.

Value for Money Risks

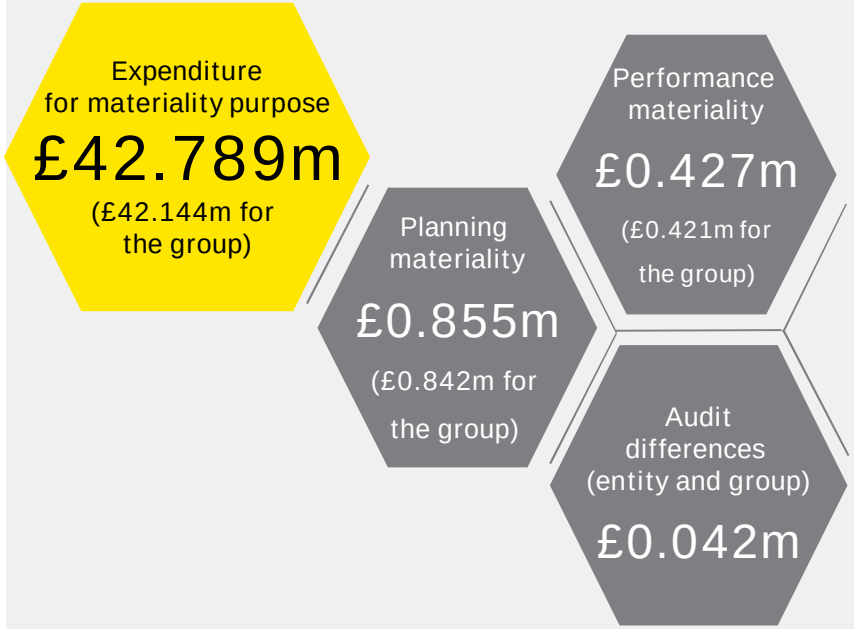
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Sustainable resource deployment: Achievement of savings needed over the medium term	To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, it has identified the need for substantial savings over the period 2020 to 2022 to balance the budget: • 2020/21 = £2.27 million • 2021/22 = £3.29 million The most recent financial forecast for the year ended 31 March 2019 projects an underspend of £0.325 million. The Council is currently developing the Medium Term Financial Plan for the coming 4-year period and will have to identify savings against the budget gaps in 2020/21 and 2021/22. It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for current and future years. Therefore a risk remains that savings or increased income will not be identified to close the funding gaps.	We will: • Assess the adequacy of the Council's budget monitoring process, comparing budget to outturn; • Challenge the robustness of key assumptions used in medium term planning; • Review the Council's approach to prioritising resources whilst maintaining services; and • For a sample of initiatives test the adequacy of the Council's arrangements for delivering savings/ efficiencies.

04 Audit materiality

Audit materiality

Materiality

For planning purposes, we have set materiality for 2018/19 at £0.855 million. This represents 2% of the Council's prior year gross expenditure on provision of services plus financing and investment expenditure. In the prior year we also applied a threshold of 2%. We will reassess the materiality throughout the audit process. We consider gross expenditure as the most appropriate basis since it reflects the cost of activities carried out by the Council. Our materiality is based on a range of either 1% or 2%. We have chosen 2% as used at the prior year audit as there are no significant changes to the Council's business environment. We have provided supplemental information about audit materiality in Appendix C.



We request that the Resources and Finance 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. We have set planning materiality at £0.855 million (£0.842 million for the group).

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.427 million (£0.421 million for the group) which represents 50% of planning materiality. When determining the percentage of performance materiality, we have considered a number of factors such as the number of errors in the prior year and our expectation of misstatement based on prior knowledge of the Council. As a result, this percentage has dropped from 75% in the prior year to 50% in 2018/19 resulting in additional key items and sample testing to be undertaken. This will have an additional fee impact which is shown in section 9.

Audit difference threshold – we propose that misstatements identified below this threshold (£0.042 million) 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 sheet that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Resources and Finance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

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 and Ireland).

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

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

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness 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 Resources and Finance Committee.

Internal audit:
We will regularly meet with the Head of Internal Audit (LGSS), and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

EY Real Estate (Valuations Specialist)

EY Pensions (Pensions Specialist)

Suresh Patel
Lead Audit Partner

Melanie Richardson
Audit Manager

Vicky Chong
Assistant Manager

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team

The engagement team is led by Suresh Patel, who has significant experience on local government audits. Suresh is supported by Melanie Richardson, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Senior Accountant. The day-to-day audit team will be led by Vicky Chong, Assistant Manager, who has replaced Victor Matimba as the Lead Senior of the audit.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Wilks Head and Eve (the Council's property valuer)
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Council's actuary)
Fair Value Investment Measurement	Link Assets Services (the Council's Treasury Advisor)

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;
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements; and
- Where appropriate, engage our own specialist support in any areas where we identify concerns, trigger events and/or estimations that are outside of our assessed acceptable range.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

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

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

Scoping by Entity

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

1	Full scope audits
1	Specific scope audits
Nil	Review scope audits
Nil	Specified procedures
1	Other procedures

Scope definitions

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

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

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

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

Other procedures: Where not material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 0.6% of the Group's profit and 0.2% of the Group's gross expenditure.

Scoping the group audit (continued)

Coverage of Revenue/Profit before tax/Total assets

Based on the group's 2018/19 forecast, our scoping is expected to achieve the following coverage of the group's expenditure and group's revenue.

Revenue — **24.9%** of the group's forecast revenue will be covered by full and specific scope audits, with the remainder covered by the single entity's audit.

Expenditure — **22.7%** of the group's forecast gross expenditure will be covered by full and specific scope audits, with the remainder covered by the single entity's audit.

Based on our group scoping we do not require specific procedures to be performed on balance sheet accounts based on our assessment of materiality and risk. Our audit approach is risk based and therefore the data above on coverage is
provided for your information only.

East Cambridgeshire Trading Company Ltd and East Cambs Street Scene Ltd will be audited by Price Bailey, a non-EY member firm, who will confirm their independence via our group instructions.

Key changes in scope from last year

- There have been no changes in scope from last year. East Cambridgeshire Trading Company Ltd has remained a significant component, categorised as full scope.
- East Cambs Street Scene Ltd produces its first set of statutory accounts in 2018/19. We have assessed and determined that it is a non-significant component, categorised as specific scope.

Details of specified procedures

- In order to provide us a reasonable assurance over East Cambs Street Scene Ltd, we have requested the component team to perform specified procedures in relation to Revenue, Salaries and Wages and Vehicle Maintenance Related Costs.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- We provide instruction to component team and our expectations regarding the detailed procedures;
- We will set up an initial meeting with the component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

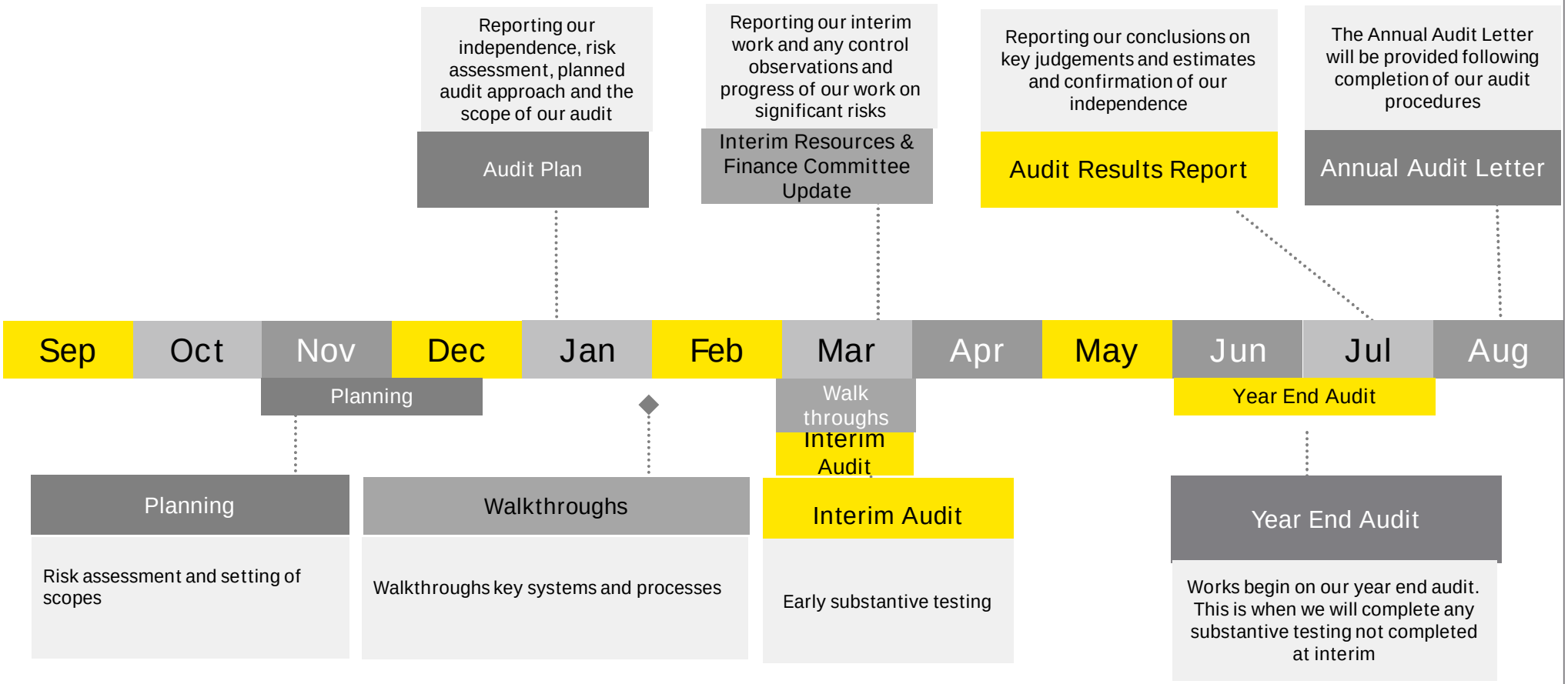
07 Audit timeline

Timetable of communication and deliverables

Timeline

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

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



08 Independence

Introduction

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

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

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

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 26%. 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.

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2018/19. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £14,960 however we will update you should this amount change.	Self review threat – figures included in the return are also included in the 2018/19 financial statements.	Relates to 2018/19 return for the period to 31 March 2019.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2018/19. The agreed upon procedures focus on the specific requirements of the certification arrangements and no reliance is placed on this work for the purposes of the financial statements audit. No other threats to independence have been identified.

Other communications

EY Transparency Report 2017
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	31,955	31,955	41,500
Audit of group accounts (note 1)	5,000 – 7,000	-	5,025
Working paper issues		-	6,125
Change to 50% materiality (Note 2)	5,000 – 7,000	-	-
Total audit	41,955 – 45,955	31,955	52,650
Other non-audit services not covered above (Housing Benefits Subsidy Claim)	14,960	14,960	12,004
Additional 40+ testing			2,034
Total other non-audit services	14,960	14,960	14,038
Total fees	56,915 – 60,915	46,915	66,688

Note 1 – East Cambs Street Scene Ltd produces its first set of statutory accounts in 2018/19. As well as our own procedures we will be requesting that the component team auditors perform specified procedures on our behalf.

Note 2: When determining the percentage of performance materiality, we have considered a number of factors such as the number of errors in the prior year and our expectation of misstatement based on prior knowledge of the Council. As a result, this percentage has dropped from 75% in the prior year to 50% in 2018/19 resulting in additional key items and sample testing to be undertaken.

The agreed fee presented is based on the following assumptions:

- The level of risk in relation to the financial statements and VFM arrangements remains the same:
- 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 Resources & Finance Committee

We have detailed the communications that we must provide to the Resources and Finance Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Resources and Finance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Required communications with the Resources & Finance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Resources and Finance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Resources and Finance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Resources and Finance Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report

Required communications with the Audit Committee (continued)

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

Additional audit information

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

EY | Assurance | Tax | Transactions | Advisory

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