

# Thurrock Council

Year ending 31 March 2017

Audit Plan

13 February 2017

Ernst & Young LLP



**EY**

Building a better  
working world

Standards and Audit Committee  
Thurrock Council  
Civic Offices  
New Road  
Grays  
RM17 6SL

13 February 2017

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Standards and Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 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 preliminary assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 28 February 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel  
Executive Director  
*For and behalf of Ernst & Young LLP*  
*Enc*

## Contents

<b>1. Overview .....</b>	<b>1</b>
<b>2. Financial statement risks .....</b>	<b>2</b>
<b>3. Value for money risks .....</b>	<b>5</b>
<b>4. Our audit process and strategy.....</b>	<b>7</b>
<b>5. Independence.....</b>	<b>11</b>
<b>Appendix A Fees.....</b>	<b>14</b>
<b>Appendix B UK required communications with those charged with governance ....</b>	<b>15</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive and via the PSAA website ([www.psa.co.uk](http://www.psa.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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Thurrock Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended.
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

For 2016/17 the Council plans to prepare group accounts, reflecting the consolidation of the Gloriana Thurrock Limited accounts. We will aim to provide an opinion on the group accounts and the Council's accounts.

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.

We will provide an update to the Standards and Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and initial discussions with those charged with governance and officers. We will update the Committee on any changes as the audit progresses.

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

Significant risks (including fraud risks)	Our audit approach
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA (UK and Ireland, UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p> <p>In our view, as the Council's main sources of revenue are largely fixed and budgeted for, e.g. government grants and taxation, the revenue recognition risk exists largely in relation to the potential for the incorrect classification of revenue spend as capital.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK&amp;I) 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.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for evidence of management bias; and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>
<p><b>Preparation of group accounts</b></p> <p>For 2016/17 the Council has concluded that it needs to prepare group accounts, consolidating Gloriana Thurrock Ltd for the first time.</p> <p>First time preparation of group accounts is a complex accounting procedure and increases the risk of material errors in the financial statements.</p>	<p>We have experience of auditing local authority group accounts that consolidate wholly owned subsidiaries. We will draw on this experience and focus our approach on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the procedures performed by the finance team to ensure the subsidiary is consolidated appropriately;</li> <li>▶ Testing the material balances consolidated within the Thurrock Council financial statements, and</li> <li>▶ Reviewing the associated disclosures to ensure these are in line with CIPFA Code of practice and associated guidance.</li> </ul> <p>As a result of the additional procedures we will need to undertake on the Council's group accounts we propose increasing the audit fee by £4,000.</p>

### Other financial statement risks

<p><b>Property Valuation</b></p> <p>At 31 March 2016 the value of property on the Council's balance sheet was over £800 million, representing almost 80% of the total assets.</p> <p>To ensure assets are recorded at fair value, the Council adopts a rolling five year revaluation programme (i.e. 20% of assets are revalued each year). This is an</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Assessing the competence and capability of the valuer;</li> <li>▶ Reviewing the figures produced for the revaluation of the assets for reasonableness;</li> <li>▶ Reviewing the basis for valuation adopted by the</li> </ul>
--	---

exercise which involves judgement, input from external experts and leads to a material accounting estimate.

Accounting entries required from changes in asset valuations affect several primary statements and disclosures in the Council's financial statements.

- Council for appropriateness;
- ▶ Agreeing the figures produced by the valuer for the revaluation of the assets to the asset register; and
- ▶ Testing the accounting treatment of changes in the valuation of property assets to ensure the financial statements are materially accurate and compliant with the CIPFA Code of practice.

**IAS19 and Pensions**

The Council is an admitted body to the Essex County Council Pension Fund. Barnett Waddingham are appointed as actuaries for this fund and provide the Council with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Council.

The value of the pension liability is a significant balance sheet item (£159.5 million at 31 March 2016) and represents a material accounting estimate.

- Our approach will focus on:
- ▶ Assessing the competence and capability of the actuary and reviewing their work, including the assumptions used as the basis for producing for pensions figures;
  - ▶ Requesting a programme of work be undertaken by the auditor of the Essex County Council Pension Fund;
  - ▶ Agreeing the figures produced by the actuary in their actuarial valuation to the disclosures in the financial statements, and
  - ▶ Testing the accounting treatment applied to the pension amounts to ensure the financial statements are materially accurate and compliant with the CIPFA Code of practice.

**Change to the Housing Rents and Housing Repairs System**

The Council has implemented a new IT system (Northgate) for recording its housing rents and repairs transactions from October 2016.

The change in system increases the risk of misstatement in the financial statements due to the migration of data from the old system which could cause data to be lost or omitted.

Depending on the effectiveness of the Council's data migration arrangements we may be required to carry out additional audit procedures which could increase the audit fee.

- Our approach will focus on:
- ▶ Assessing the procedures performed by the Council to migrate the data to assess how management have gained assurance that data on the new system is complete and accurate;
  - ▶ Checking that the parameters entered into the new system agree to those in the old system and that these parameters agree to those charges approved by the Council; and
  - ▶ Reviewing reconciliations performed by the Council to ensure all data is correct and has fully migrated.

**Financial Statements Presentation**

Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The service analysis should be based on the organisational structure under which the Council operates. We expect this to reflect the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

- Our approach will focus on:
- ▶ Reviewing the expenditure and funding analysis, the restated CIES and new notes to ensure disclosures are in line with the code of practice;
  - ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
  - ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

**2.1 Responsibilities in respect of fraud and error**

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight

of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls 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 any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

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. For 2016/17 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 which 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.

Our risk assessment therefore considers both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. To date, our work in this area has resulted in the identification of the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
<p><b>Pressures from the economic downturn</b></p> <p>The Comprehensive Spending Review continues to impact on the Council’s budget and medium term financial planning during current and forthcoming financial years.</p> <p>Projections for 2016/17 as at quarter 2 indicate a year-end overspend of £0.24 million. However, achievement of this is dependent upon delivering £4.53 million of in-year mitigating actions to manage existing financial pressures.</p> <p>Forecasts as at quarter 2 for the 2016/17 financial year indicate that £2.61 million of the £3.39 million savings target will be delivered with the balance contributing to the in-year pressures.</p> <p>The Medium Term Financial Strategy (MTFS) presented to the Council in February 2016 showed the budget gap over the 3 years from 2017/18 to 2019/20 as £18.44 million. This already assumed delivery of £2.53 million</p>	<p>Our approach will focus on reviewing the MTFS and selecting a small sample of savings and efficiency targets to understand:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council’s process for identifying the savings and efficiency targets;</li> <li>▶ The robustness of any underlying assumptions;</li> <li>▶ The use of scenario planning; and</li> <li>▶ The effectiveness of in year monitoring of progress against the savings and efficiency targets.</li> </ul>

savings previously agreed for 2017/18 and assumed a Council Tax increase of 3.99% in each year.

The MTFS was revised in September 2016 in light of changes to business rates and inflation assumptions and the budget gap increased to £20.95 million.

Therefore, there is a significant budget gap over the medium term, for which the Council has identified a number of savings and actions. However, the scale of the budget gap is a significant risk to the value for money conclusion.

---

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ 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 report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### 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.

### 4.2 Audit process overview

Our audit involves:

- ▶ Rather than relying on key controls we consider that it is likely to be more efficient to undertake a substantive approach to the audit including using analytics tools. However we will consider the appropriateness of controls testing once our walkthrough testing of the key financial systems has been undertaken
- ▶ We will refer to the work of internal audit in order to inform our planning and risk assessment
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and property valuations. We will use our specialists to assess the work undertaken by the actuary when preparing the report which is used by the Council for the pension liability and related disclosures in the Statement of Accounts

#### **Analytics**

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

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests

- ▶ Give greater likelihood of identifying errors than random sampling techniques.

### Internal audit

As in the prior year we will 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 we raise issues that could have an impact on the year-end financial statements.

### 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
Pensions	EY Pensions Team and PwC Barnett Waddingham
Property, plant and equipment	Thurrock Council valuer Gerald Eve
Investments	Arlingclose
NDR appeals provision	Wilks, Head & Eve

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 environment 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 expert 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.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must 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.
- ▶ Auditor independence.

#### **Procedures required by the Code**

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act and Code of Audit Practice.

## **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

Based on the prior year financial statements, we have determined that overall materiality for the financial statements of the Council is £6.6 million based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £333,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all 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.

## **4.5 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 indicative fee scale for the audit of Thurrock Council is £133,723.

We currently propose an increase to the audit fee of £4,000 to reflect the additional audit procedures we are required to undertake as a result of the Council's preparation of group accounts. We are required to agree this increase with PSAA.

In addition, in Section 2 we highlight two other issues (the change to the IT system for housing rents and repairs and the new Code requirements for presenting the CIES) which may require us to perform additional audit work. We will communicate to the Standards and Audit Committee the extent of any additional work and associated fees once we have a better understanding of the Council's arrangements to mitigate the risks identified. Appendix A includes a breakdown of audit fees.

## 4.6 Your audit team

We have made changes to the senior members of our audit team. Suresh Patel, an Executive Director with significant local authority audit experience, will be taking over from Debbie Hanson as the Engagement Partner for the audit. Debbie has completed seven years as your auditor, the maximum time ethical standards and PSAA allow. Suresh is supported by Martina Lee, an experienced Audit Manager with previous experience of auditing Thurrock. She will be taking over from Philip King and will be responsible for the day-to-day direction of audit work and act as the key point of contact for the Section 151 Officer and Chief Accountant.

## 4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Standards and Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Standards and Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Standards and Audit Committee timetable	Deliverables
High level planning	January - February 2017	February 2017	Audit fee letter and Audit Plan
Risk assessment and setting of scopes	January - February 2017	February 2017	Audit Plan
Testing routine processes and controls	March – April 2017		Interim report (if necessary)
Selection of initial and extended testing samples for housing benefit grant claim	April 2017		
Year-end audit	July – August 2017		
Completion of audit	August 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Testing of housing benefit grant claim	September – November 2017		
Conclusion of reporting	October 2017	December 2017	Annual Audit Letter
Reporting of claims and certification work	December 2017	December 2017	Certification of claims and returns annual report

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

## 5. Independence

### 5.1 Introduction

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

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

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services.

#### Other engagements

For the past two years the Council has engaged us as reporting accountants to certify grant claims for:

- ▶ Teachers' Pension Return; and
- ▶ Housing Pooled Capital Receipts Return.

We are also appointed by the Board of Gloriana Thurrock Ltd as their statutory auditor.

We have also carried out Advisory work with Xantura on development of the Children's Safeguarding Profiling Model. This work was completed in 2015-16.

We have considered the other engagements above in the context of threats to our independence and objectivity as the auditor of the Council. We have not identified any perceived or actual threats.

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 are disclosed, analysed in appropriate categories.

## 5.2 Relationships, services and related threats and safeguards

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

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

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 the Council has approved and that are in compliance with PSAA Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 29%. 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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 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 other 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 your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

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

### ***Other threats***

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

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

### ***Overall Assessment***

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

### **5.3 Other required communications**

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

Details of the key policies and processes 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 June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £	Explanation
Opinion Audit and VFM Conclusion	137,723*	133,723	133,723	As a result of the additional procedures we will need to undertake on the Council's group accounts we propose increasing the audit fee by £4,000.
<b>Total Audit Fee – Code work</b>	<b>137,723</b>	<b>133,723</b>	<b>133,723</b>	
Certification of claims and returns	17,148	17,148	15,664	Indicative certification fees are prescribed by PSAA
Non-audit work	TBC	n/a	12,975	Teachers' Pension Return
	TBC	n/a	5,600	Pooled Capital Receipts
			20,000	Advisory work with Xantura on development of the Children's Safeguarding Profiling Model

*All fees exclude VAT.*

*\* subject to agreement with PSAA*

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ 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 UK required communications with those charged with governance

There are certain communications that we must provide to the Standards and Audit Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Audit Results Report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Standards and Audit 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
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Audit Results Report
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Audit Results Report
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Standards and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Standards and Audit Committee may be aware of</li> </ul>	▶ Audit Results Report

Required communication	Reference
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Certification report</li> </ul>

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)