REPORT TITLE: PLANNING FOR AND AUDIT OF THE 2017/18 ACCOUNTS

8 MARCH 2018

REPORT OF PORTFOLIO HOLDER: Councillor Ashton, Portfolio Holder for Finance

Contact Officer: Liz Keys Tel No: Extension 2226 Email LKeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The purpose of this report is to update the Committee on the actions taken to ensure that the Statement of Accounts for 2017/18 is fully compliant with statutory requirements and to make the Committee aware of changes impacting on the statements.

This report also introduces the external auditor's Audit Plan for the 2017/18 financial statements (see Appendix 1).

RECOMMENDATIONS:

1. That the Audit Committee notes this report in respect of the Council's Statement of Accounts for 2017/18.
2. That the Audit Committee approves the amendments to the disclosure of accounting policies.
3. That the Audit Committee notes the Audit Plan and asks any questions of the external auditors, Ernst & Young.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 Preparation of the Annual Financial Report is fundamental to the operation of the Council. Although not directly linked to an individual Council Strategy Outcome, achieving all the outcomes must go hand in hand with accounting for how taxpayers' money has been spent. Additionally, the Council has a statutory responsibility to publish a statement of accounts annually.

2 FINANCIAL IMPLICATIONS

2.1 None.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 None.

4 WORKFORCE IMPLICATIONS

4.1 The new requirement to publish the Accounts by the earlier deadline of 31 May 2018 will require the Finance team to focus on the closedown to an even greater extent than in previous years, albeit for a shorter time. This will result in decreased capacity to give financial support to other areas of the business (e.g. major projects) and may result in additional costs for buying in specialist resource if business need and competing deadlines require it.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None.

6 CONSULTATION AND COMMUNICATION

6.1 Not required.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 None.

8 EQUALITY IMPACT ASSESSMENT

8.1 None.

9 RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Legal *Failure to meet the statutory deadline for publication of the unaudited*	A comprehensive project plan for the delivery of the accounts closedown has been drafted and communicated.	None

Risk	Mitigation	Opportunities
accounts		
Reputation *The Accounts are qualified by external audit as being materially misstated.*	Accounting in accordance with the CIPFA Code of Practice. Early communication / agreement of accounting treatment with external auditors.	None

10 SUPPORTING INFORMATION:

Background

10.1 The purpose of this report is to inform the Audit Committee of the implications on the Statement of Accounts of the significant statutory and other changes applying to the 2017/18 financial year.

10.2 The Statement of Accounts is prepared in accordance with 'proper practices' as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

Accounts and Audit Regulations 2015

10.3 The Accounts and Audit Regulations 2015 came in to force from the 1 April 2015 and apply to all financial years starting on or after that date. These Regulations are fundamentally important to the process for preparing and publishing the Statement of Accounts. Amongst other things, the Regulations specify the standard to which the Accounts must be prepared; the approval and publication requirements; and how the rights of the public to take part in the process must be facilitated.

10.4 From 2017/18 legislation requires that the draft, pre-audit Statement of Accounts is signed by the Section 151 officer and published by 31 May, and that the audited Statement of Accounts is approved by Members, by 31 July.

10.5 The accounts are published alongside a new statement setting out the public inspection rights and arrangements. The public has 30 working days to inspect the accounts and may also ask questions of and make objections to the auditor at any point during this time. The process for the publication of the audited accounts otherwise remains largely unchanged.

10.6 The external auditors, Ernst & Young LLP, are undertaking 'pre-statement' work in February and March and will conduct the main audit work in June and July.

Statutory Changes - The Item 8 Credit and Item 8 Debit (General) Determination from April 2017

10.7 The self-financing regime for the Housing Revenue Account (HRA) via the Localism Act 2011 was introduced in 2012/13. This statutory framework was established to allow depreciation to be a bottom-line charge for HRA long-term assets. However, transitional arrangements have applied for a five-year period, permitting authorities to negate any bottom line impact. During this period the Council has (as allowed under the previous regulations) used the Major Repairs Allowance as a proxy for determining depreciation. From April 2017 Authorities are required to calculate depreciation on all HRA properties in accordance with proper accounting practices. It is not anticipated that the revised method for calculating depreciation for 2017/18 is likely to result in a materially significant to the charges made in previous years.

Changes to the Accounting Code of Practice 2017/18 - Narrative Reporting

10.8 There has been a legislative requirement to publish a Narrative Statement alongside the Statement of Accounts since 1 April 2015. The 2017/18 Code introduces new guidance on a principles based approach to Narrative Reporting, setting out the key principles that local authorities should consider when preparing their report.

10.9 The Narrative Report's purpose is as a key document for communicating to stakeholders the authority's purpose; how it has performed in accordance with its overall strategy and against performance measures over the year; and how it has allocated its resources in line with intended outcomes.

10.10 The Code has set out a framework of 8 elements that local authorities should give consideration to when developing their report. The format of the 2017/18 Narrative Report will be revised in accordance with the revised Code guidance.

Changes to the Council's Accounting Policies

10.11 There are no proposed changes to our accounting policies in 2017/18. There are however, some proposed presentational changes to Accounting Policy disclosures to better reflect Code guidance, these are:

- The wording of the Overhead and Support Services policy to be updated to remove references to CIPFA's Service Reporting Code of Practice

- Disclosure of the Council's policies: on Council Tax and Non-Domestic Rates; and the Community Infrastructure Levy to be added to the statements as follows:

    - ***Council Tax and Non-domestic Rates (England)***

      Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including *government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.*

- ***Accounting for Council Tax and NDR** –*

  The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

- ***Community Infrastructure Levy***

  The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

  CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this authority may be used to fund revenue expenditure.

Other Proposed Presentational Changes to the Council's Statements

10.12 The service analysis presentation in the Cost of Services will be changed in this year's Comprehensive Income & Expenditure Statement and the Expenditure and Funding Analysis (disclosure note 2) to reflect the basis on which financial performance has been internally reported to and monitored by the Cabinet in 2017/18. The internal financial reporting basis used in 2017/18 differs from the directorate basis reported in previous years so it will be necessary to restate the 2016/17 Cost of Services comparators so they are consistent with the new basis of internal reporting.

10.13 The revised layout of the service portion of the Comprehensive Income & Expenditure Statement has been drafted as follows:

2016/17 RESTATED				2017/18		
Expenditure £000	Income £000	Net £000		Expenditure £000	Income £000	Net £000
1,877	(346)	1,531	Business	X	(X)	X
13,275	(9,647)	3,628	Environment	X	(X)	X
5,543	(478)	5,065	Health and Happiness	X	(X)	X
19,590	(29,507)	(9,917)	Housing	X	(X)	X
(27,611)	0	(27,611)	Property Revaluation (HRA)	(X)	X	(X)
31,599	(29,738)	1,861	Operational Delivery	X	(X)	X
4,390	(382)	4,008	Organisational Management	X	(X)	X
48,663	**(70,098)**	**(21,435)**	**Cost Of Services**	**X**	**(X)**	**X**

External Audit of the Financial Statements

10.14 Ernst & Young LLP have presented their Audit Plan, attached at Appendix 1, which sets out how they intend to carry out their responsibilities as auditor. Its purpose is to provide the Committee with a basis to review the proposed audit approach and scope for the 2017/18 audit in accordance with legislation and auditing standards. It is also to ensure that the audit is aligned with the Committee's service expectations.

11 OTHER OPTIONS CONSIDERED AND REJECTED

11.1 None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Other Background Documents:-

Cipfa Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

APPENDICES:

Appendix 1 – EY Audit Plan 2017/18

FOR OFFICER USE: TO BE COMPLETED BY OFFICER CLEARING REPORT						
Report clearance prior to CMT:	**Officer Initials**					
Finance Clearance: DK/NA/LK*						

Legal Clearance: LH/FS/MS*						
Report clearance prior to Leaders Board:	**Officer Initials**					
CMT clearance: LT/JH/ST*						

*please add initials to appropriate box once report has been cleared

Winchester City Council

Audit planning report

Year ended 31 March 2018

March 2018

Building a better working world

Private and Confidential

March 2018

Audit Committee
Winchester City Council
City Offices
Colebrook Street
Winchester
SO23 9LJ

Dear Audit Committee Members

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

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

This report is intended solely for the information and use of the Audit 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 8 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

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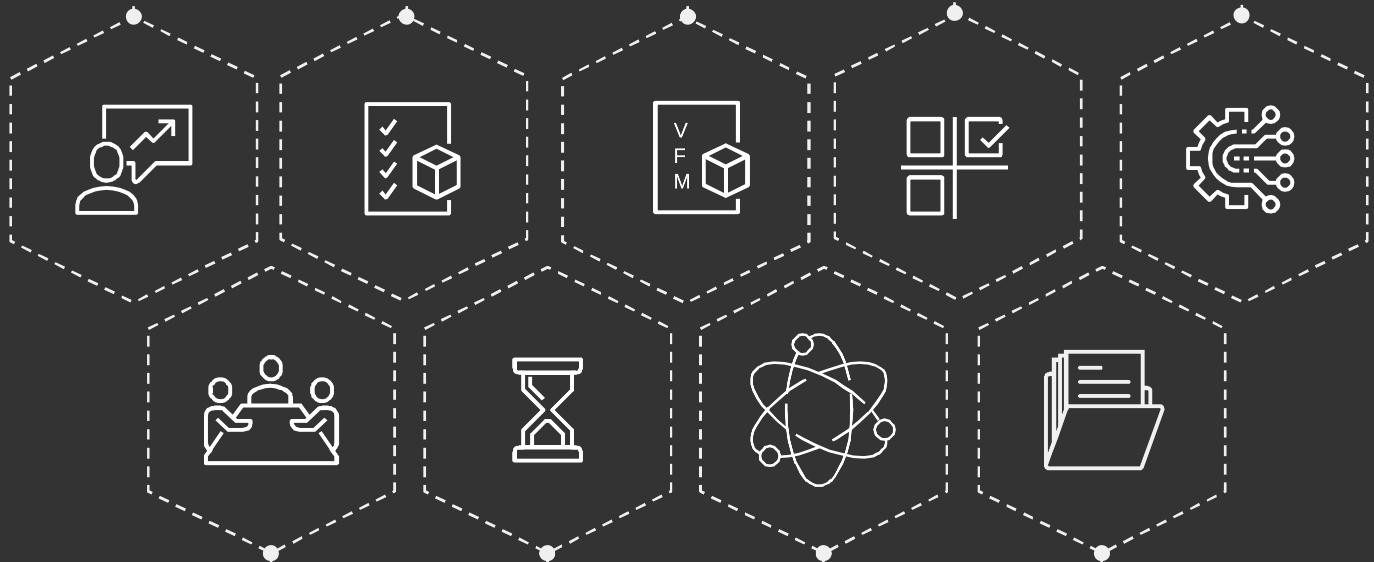


In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Winchester City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Winchester City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Winchester City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of management override	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Pension liability valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Property, Plant and Equipment and Investment Property valuations	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Planning materiality

£1.824m

Materiality has been set at £1.824m, which represents 2% of the prior year's gross expenditure on provision of services.

Performance materiality

£1.368m

Performance materiality has been set at £1.368m, which represents 75% of materiality.

Audit differences

£0.912m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £0.912m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2017/18 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Winchester City Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

02 Audit risks

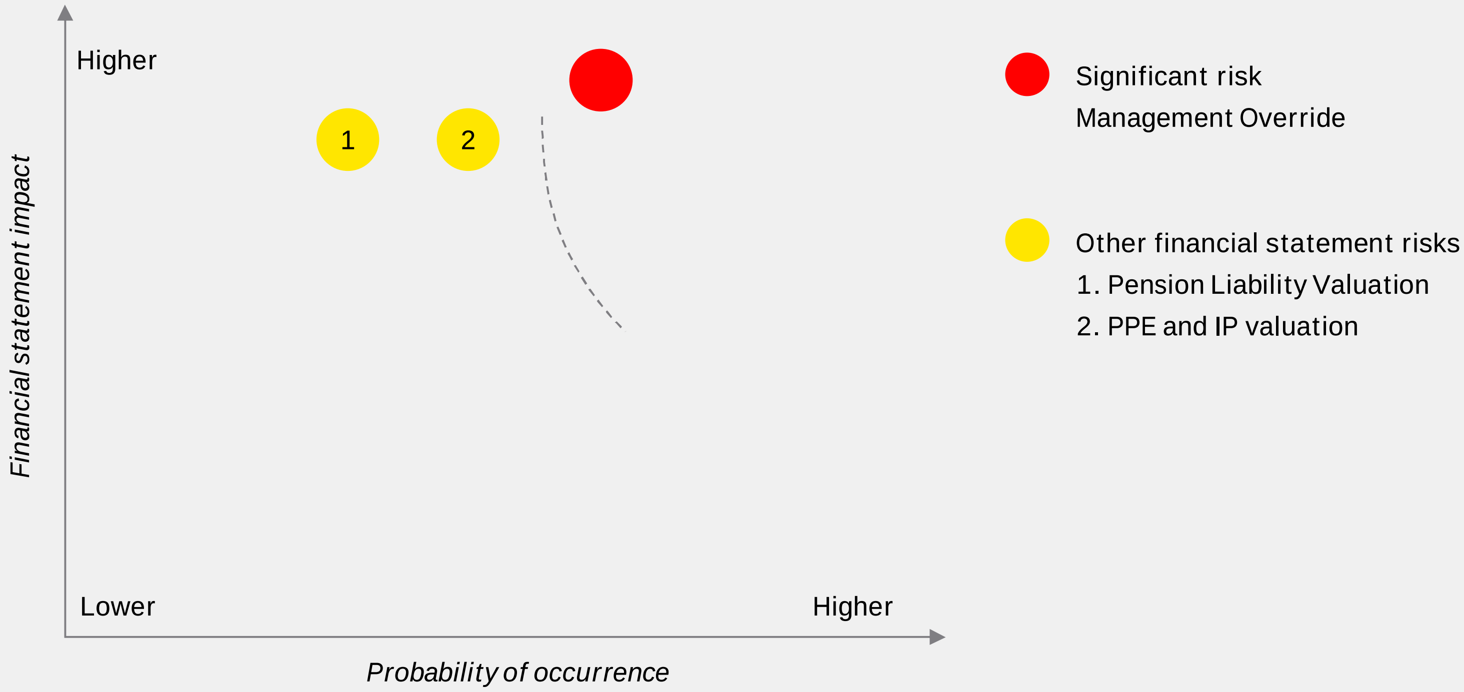
Audit risks

Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016/17 Annual Report and Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

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



Our response to significant risks

We have set out the significant risks (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.

Management override of controls

Financial statement impact

Misstatements that occur in relation to the risk of fraud by management override could affect the income and expenditure accounts, alongside significant balance sheet accounts where key estimates are processed.

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.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will:

- ► test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ► review accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE and the pension liability;
- ► consider the appropriateness of any changes to accounting policies particularly those impacting on accounting estimates;
- ► consider entries made in the Movement in Reserves Statement which impact on the Council's reported reserves; and
- ► evaluate the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work, including carrying out testing on the Income and Expenditure accounts, and journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £56.4 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditor of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Winchester City Council. • Assess the work of the Pension Fund actuary (Aon Hewitt) 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.
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • Consider the work performed by the Council's internal and external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property; • Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and • Test accounting entries have been correctly processed 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 2017/18 this is based on the overall evaluation criterion:

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

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.

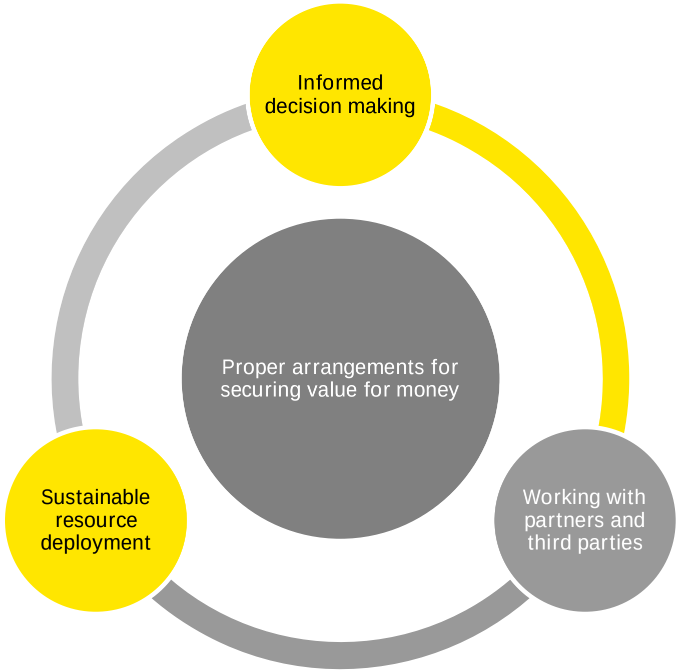
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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.

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 no significant risks. We will, however, continue to review the development of contract management and procurement arrangements in response to issues raised as part of our 2016/17 VFM conclusion work. We will also consider the ongoing work at the Council to modernise and improve organisational governance more generally.

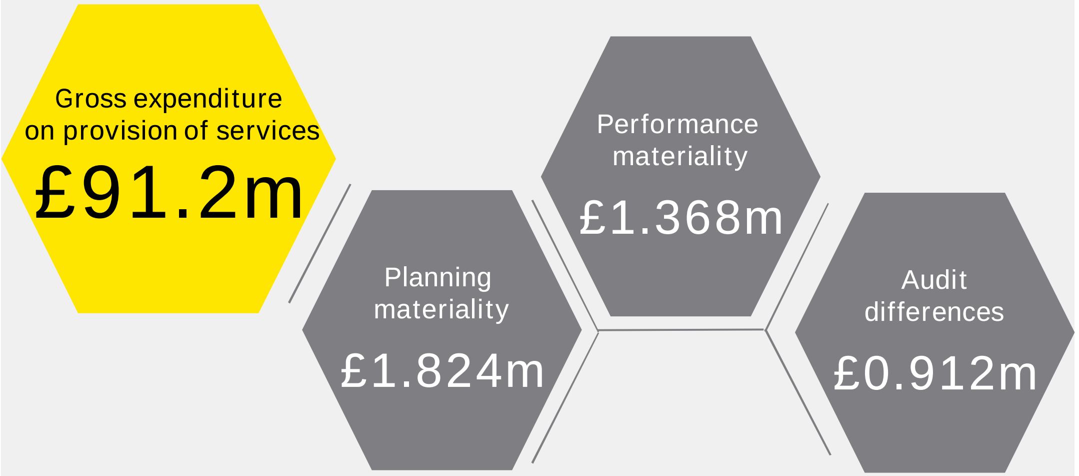


04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.824m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. The basis of the materiality calculation remains unchanged from the prior year and reflects our assessment of risk and the expectation of users of the financial statements. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.368m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund 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 Audit Committee, or are important from a qualitative perspective.

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; 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 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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

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

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

Internal audit:
We will regularly meet with the Head of Internal Audit, 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, the annual governance statement or the narrative statement.

06 Audit team

Audit team

Audit team structure:

Client Service Partner

Helen Thompson
Associate Partner

Helen Thompson
Associate Partner

Simon Mathers
Senior Manager

Sara Rowntree
Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2017/18 audit.

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

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 specialists provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Actuaries Aon Hewitt – Actuary to Hampshire Pension Fund
PPE	Wilks Head & Eve are engaged by the Council for valuation of its PPE and Investment Property portfolio, with the work reviewed by the Council's internal valuer.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	October		
	November		
Walkthrough of key systems and processes	December		
	January		
Interim audit testing	February		
Interim audit testing	March	Audit Committee	Audit Planning Report Interim audit update
	April		
	May	Audit Committee	Progress report
Year end audit	June		
Audit completion procedures	July	Audit Committee	Audit Results Report Audit opinion and completion certificates
	Autumn	Audit Committee	Annual Audit Letter

Audit timeline

Faster Close – Key Messages

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include internal quality assurance arrangements, late working papers, and slippage in delivering data for analytics work in format and to the timescales required.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions and information requests.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may include postponing your audit until later in the summer and redeploying the team to other work to meet deadlines elsewhere.

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

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Work with the Council to implement 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.

08 Independence

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 Helen Thompson, 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, we have not undertaken any non-audit work, therefore no additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

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

Other communications

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

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	56,336	56,336	61,336*
Total audit	56,336	56,336	61,336
Housing Benefit Grant Claim Certification Audit	8,316	8,316	8,483
Total fees	64,652	64,652	69,819

** Includes an additional fee of £5,000 for work undertaken to support the 2016/17 value for money conclusion which remains subject to final approval by Public Sector Audit Appointments Limited*

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Council; and

► The Council has an effective control environment.

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

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

Appendix B

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you: When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Required communications with the Audit Committee (continued)

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

Appendix B

Required communications with the Audit Committee (continued)

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

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Appendix C

Additional audit information

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

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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