



SLOUGH BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE
Audit for the year ended 31 March 2017

Date of issue: 18 April 2017

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INTRODUCTION

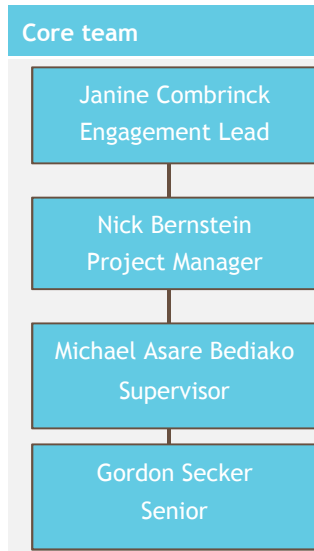
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the Council for the year ended 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Corporate Governance Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Janine Combrinck Engagement Lead	Tel: 020 7893 2631 Janine.Combrinck@bdo.co.uk	Oversee the audit and sign the audit report
Nick Bernstein Project Manager	Tel: 020 7486 5888 Nick.Bernstein@bdo.co.uk	Management of the audit
Michael Asare Bediako Supervisor	Tel: 020 7893 3643 Michael.Asarebediako@bdo.co.uk	Day to day management and supervision of the audit
Gordon Secker Senior	Tel: 01603 756910 Gordon.Secker@bdo.co.uk	Day to day lead of the on-site audit team

Janine is the Engagement Lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

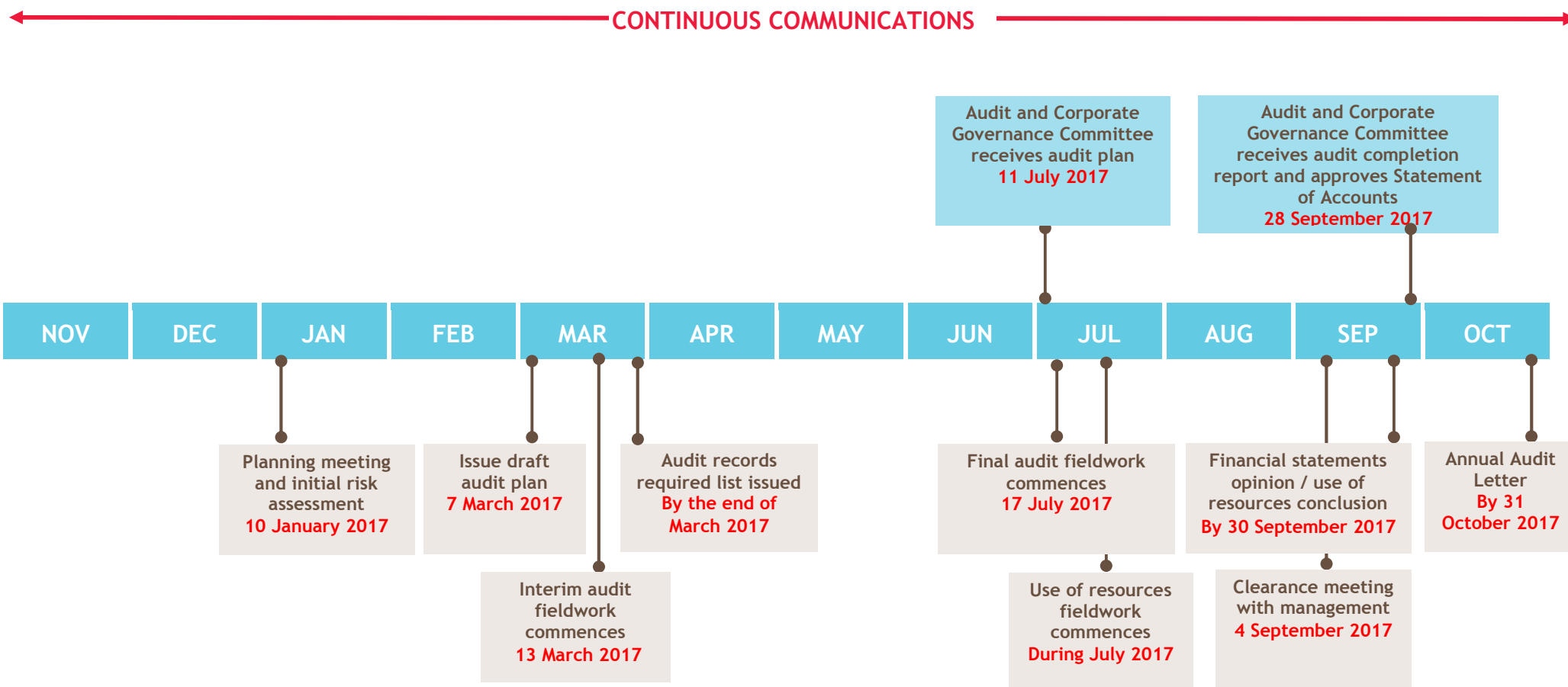
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Janine is also responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office’s (NAO) Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To consider making a written recommendation to the Council.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law, where necessary.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Slough Borough Council	£7,800,000	£156,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Council's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to assess their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty

- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Fraud and error

We are required to discuss with you the possibility of material misstatement, due to fraud or error, and to reassess this throughout the audit. We are informed by management that there have not been any cases of material fraud or error, to their knowledge. We will continue to consider this throughout the audit process and discuss with management.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other Issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We consider there to be a significant risk in relation to the existence and cut-off of revenue grants included as income in Net Cost of Services within the Comprehensive Income and Expenditure Statement, when conditions attached to such grants have not been met.</p>	<p>We will test a sample of revenue grants recorded as income in the net cost of services to documentation from grant paying bodies and check whether revenue recognition criteria have been met.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Financial statements preparation	<p>Our audits in the last few years have identified weaknesses in the Council’s arrangements for preparing the financial statements and working papers, and a significant number of misstatements were identified, including material misstatements in the following areas:</p> <ul style="list-style-type: none"> • Disclosures in the dedicated schools grant note • Financial instrument notes • Senior officer remuneration and exit packages note • Note on amounts reported for resource allocation decisions • Pooled budgets note • Detailed analysis of the cash and cash equivalents balance and supporting bank reconciliations • Debtors and creditors mapping. 	<p>We will assess progress towards improving production of the 2016/17 financial statements and supporting working papers. This will include:</p> <ul style="list-style-type: none"> • Carrying out an early review of the draft financial statements against the requirements of the Code of practice for Local Authority Accounting 2016/17 • Briefing finance staff on our expectation for good quality working papers • Reviewing the consistency of the financial statements with underlying working papers before the start of the onsite audit visit • Obtaining assurance that management has carried out a critical review of the financial statements before they are submitted for audit; this could be evidenced by comprehensive explanations for all significant variances from the prior year • Early testing of the areas where material misstatements were identified in the prior year. 	<p>Not applicable.</p>
Schools transactions and reconciliations	<p>In prior years we have reported that the Council’s arrangements for consolidating schools’ income, expenditure, working capital balances and reserves require significant improvement.</p> <p>There is a risk of material misstatement in the 2016/17 financial statements if the weaknesses in working papers and journals prepared to support the consolidation of schools transactions are not addressed.</p>	<p>We will review reconciliations between the general ledger and returns submitted by schools to support their income, expenditure, working capital balances and reserves. In addressing this risk, the Council will need to utilise the information provided by schools more effectively.</p>	<p>Schools returns authorised by the Treasurer or Head teacher of each school.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Changes in the presentation of the financial statements	<p>The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement based on the Council’s directorate structure and reporting to members • Change to the format of the Movement in Reserves Statement • New Expenditure and Funding Analysis note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement of comparative figures.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Group accounts preparation	<p>The Council is one of two members of a limited liability partnership (LLP), trading as Slough Urban Renewal Partnership LLP (SUR LLP). It has a 50% interest in the LLP, the remaining interest being held by the other member, a private sector construction services business.</p> <p>The arrangement comprises a joint venture as defined by IFRS 11 “Accounting for joint arrangements.” In prior years the Council has accounted for its interest in the joint venture on a cost basis and has not prepared Group Accounts, as its share of transactions in the joint venture has not been material.</p> <p>There has been an increase in activity in the joint venture in the current year and therefore it is likely that the Council will now need to account for its interest in the joint venture using the equity method of accounting and prepare Group Accounts.</p> <p>There is a risk that the Council’s interest in the joint venture may not be correctly accounted for in the single entity accounts and that Group Accounts may not be appropriately prepared.</p>	<p>We will review the financial statements and management accounts of SUR LLP to check whether or not the Council’s share of transactions in the joint venture is material.</p> <p>If material, we will check that:</p> <ul style="list-style-type: none"> • The Council’s investment in SUR LLP is correctly accounted for an equity basis in the Council’s single entity accounts • Assets, liabilities, income and expenditure in the joint venture are appropriately consolidated in Group Accounts, including conversion from FRS102 to IFRS based accounts under CIPFA’s Code of Practice on Local Authority Accounting • The disclosure requirements of IFRS 12 “Disclosure of Interests in Other entities” and the Code of Practice on Local Authority Accounting have been complied with in preparing Group Accounts. <p>We will also liaise with the auditor of SUR LLP, review its most recent ISA 260 completion report and consider the impact of any significant findings on our audit.</p>	Not applicable.
Change in payroll system	<p>During the year the Council changed its payroll system from Chris21 to Agresso. There is a risk that data has not been accurately and completely transferred from the old system to the new system.</p>	<p>We will review work carried out by Internal Audit on the Council’s reconciliations over the data migration and substantively test a sample of data transferred from the old system to the new system.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Valuation of non-current assets	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out revaluations on a sample of assets as at 1 January 2017, and a further market movement review will be performed on these assets as at 31 March 2017.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert Check whether the basis of valuation for assets valued in year is appropriate; in particular, we will check whether an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost and that investment properties and surplus assets have been valued at 'highest and best use' Review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices, or any assets which have not been revalued at the year-end which may have had material movements since the last formal valuation. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Existence, accuracy and presentation of non-current assets</p>	<p>Our prior year's audit identified weaknesses in the Council's arrangements for ensuring that non-current assets included in the fixed asset register (FAR) exist, are accurately stated and correctly classified. A number of misstatements were identified, including:</p> <ul style="list-style-type: none"> • Incorrect inclusion of assets previously disposed of or demolished • Incorrect inclusion of an asset where the Council had surrendered the lease back to the leaseholder • No de-recognition of replaced components • Misclassification of investment properties as property, plant and equipment • Misclassification of property, plant and equipment as investment properties • Misclassifications between operational assets and surplus assets within property, plant and equipment • Incorrect input of a number of valuations, resulting in differences between the FAR and the valuer's certificate. <p>There is a risk of continuing errors in non-current assets as a result of weaknesses in processes for updating the FAR.</p>	<p>We will test a sample of non-current assets to check whether:</p> <ul style="list-style-type: none"> • Assets exist and are owned by the Council • Components have been correctly de-recognised on replacement • Assets are correctly classified • Valuations agree to the valuer's certificate. <p>We will also review the reconciliation between valuation totals in the fixed asset register for each asset category to totals per the valuer's certificate.</p>	<p>Not applicable</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the Royal County of Berkshire Pension Fund for Slough Borough Council and the previous Berkshire County Council, and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Agree the disclosures to the information provided by the pension fund actuary • Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary • Check whether any significant changes in membership data have been communicated to the actuary. 	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Related party disclosures	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p> <p>The 2016/17 Code includes an addition to the definition of a related party for an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity, and new disclosures are required for these services provided by separate management entities.</p> <p>There is a risk that related party disclosures are not complete and in accordance with the Code requirements.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review councillors' and senior managers' declarations to ensure there are no potential related party transactions which have not been disclosed.</p> <p>We will also discuss with management and review minutes of meetings for key management personnel services received from other entities, and check that all required disclosures have been made.</p>	<p>Companies House searches for undisclosed interests.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - WHOLE OF GOVERNMENT ACCOUNTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Accuracy and completeness of the data collection tool</p>	<p>We are required to perform tests with regard to the WGA Data Collection Tool (DCT) prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>In prior years we identified a significant number of errors within the return, with the result that the Government's deadline for completion of the audit of the DCT was not met in the last four years. There is a risk that these issues will recur in 2016/17.</p> <p>The achievement of the deadline going forward will depend on the quality of the return, its timely receipt and the quality of the supporting working papers.</p>	<p>We will check the consistency of the WGA return with the audited financial statements and supporting working papers, and review the completeness and accuracy of CPID data.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES: SUSTAINABLE DEPLOYMENT OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
MTFS	<p>The update to the Medium Term Financial Strategy (MTFS) to 2020/21 has forecast further reductions in Government core grant funding and annual inflationary and pay award pressures.</p> <p>Significant levels of savings are required to balance the budget in each of the five years from 2016/17. As at February 2017 the savings requirement amounts to £10.125 million in 2016/17, £12.411 million in 2017/18, £5.103 million in 2018/19, £4.618 million in 2019/20 and £1.678 million in 2020/21.</p> <p>The Council has a number of Invest to Save capital projects in progress to generate additional income going forward. These include:</p> <ul style="list-style-type: none"> • A new leisure centre development and improvements to existing leisure centres • Development of two hotels in the centre of town • Development at the Thames Valley University site • Expansion to schools. <p>There is a risk that the MTFS does not adequately take account of the investment costs associated with major development projects and savings schemes and that there are insufficient underlying risk management and monitoring arrangements in place to ensure successful delivery of these projects.</p>	<p>We will review the reasonableness of the MTFS assumptions, including investment costs associated with Invest to Save initiatives and major savings schemes.</p> <p>We will also review the adequacy of risk management and monitoring arrangements underpinning major development projects.</p>	Not applicable.
Interim staff	<p>There have been a number of changes in senior managers during the year and a number of key posts have been covered by costly interims.</p> <p>There is a risk that the Council may not be planning, organising and developing its workforce effectively, and that it may not be securing value for money from the use of interims.</p>	<p>We will review the Council's use of contractors and agency staff and its arrangements to substantively fill vacant posts.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES: INFORMED DECISION MAKING

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>System of internal control and governance arrangements</p>	<p>We are aware that there are a number of areas of weakness in the Council’s system of internal control and governance arrangements, as evidenced by Internal Audit issuing a number of negative assurance opinions in 2016/17. These include reviews in budgetary control, information governance, business continuity and commissioning.</p> <p>There are also a significant number of outstanding recommendations from previous years, which resulted in Internal Audit concluding that only ‘Little’ progress had been made in implementing previous recommendations in their Follow up review.</p> <p>In addition, we are aware that a project is in place to update the Council’s Constitution and a number of Human Resources policies that have not been reviewed and updated for a number of years.</p> <p>There is a risk that the Council may not be acting in the public interest through demonstrating and applying the principles and values of sound governance that are required to support informed decision making.</p>	<p>We will consider the potential impact on our audit of weaknesses in the system of internal control identified by Internal Audit and other governance issues of which we are aware of.</p> <p>We will review the Council’s processes to address these issues during 2016/17.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES: PARTNERSHIP WORKING

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Children's social care services</p>	<p>Our 2015/16 use of resources conclusion was qualified because of significant weaknesses in Children's Social Care Services identified by Ofsted since 2011, and insufficient monitoring of contractual performance of the service after it transferred to Slough Children's Services Trust on 1 October 2016.</p> <p>There is a risk that the Council may not be able to demonstrate value for money from its arrangements for improving services and outcomes in Children's Social Care Services during 2016/17, in managing the contract with the Trust. In the absence of sufficient evidence of improvement we may need to qualify our use of resources conclusion again.</p>	<p>We will gain an understanding of action taken by the Council and Slough Children's Services Trust during 2016/17 to address Ofsted's recommendations and seek evidence of improved processes.</p>	<p>Not applicable.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Standards Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2017.

We have not identified any potential threats to our independence as auditors.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include director and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17	2015/16
	£	£
Audit fee - scale fee	127,523	127,523
Audit fee - additional fee for financial statements audit	-	25,235*
Certification fee - Housing benefits subsidy claim	20,625	20,000**
Total PSAA regime fees	148,148	172,758
Fees for audit related services:		
- Pooled capital receipts return	1,800	1,800
- Teachers' pensions return	3,535	3,535
Fees for other non-audit services		
- None	-	-
TOTAL FEES	153,483	178,093

** Our 2015/16 audit fee includes additional fees of £25,235 for cost overruns incurred on the financial statements audit. This fee has been agreed with management and PSAA.

** Our fee for certification of the 2015/16 Housing benefits subsidy claim increased from £9,950 to £20,000 as a result of a number of issues identified in the audit. The additional fee was agreed with management but is still subject to approval by PSAA.

Audit fee invoices will be raised in quarterly instalments of £31,880.75 during 2016/17.

Fee invoices for other audit related services will be raised as the work is completed.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.


UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Standards Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
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APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Janine Combrinck - Engagement lead	2 years as engagement lead and 3 years as project manager	31 March 2021*
Nick Bernstein - Project manager	1	31 March 2027

*An additional period of up to two years may be agreed with PSAA and those charged with governance in certain circumstances.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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