



## Performance and Audit Scrutiny Committee 21 May 2014

### Ernst & Young – External Audit Plan and fees 2013/14 and 2014/15 Indicative fees

#### 1. Summary and reasons for recommendation

- 1.1 The Audit Plan attached at **Appendix A**, sets out how Ernst & Young, intend to carry out their responsibilities as our external auditors.
- 1.2 The purpose of this report is to provide the Performance and Audit Scrutiny Committee with a basis to review Ernst & Young's proposed audit approach and scope for the 2013/14 audit along with the planned fees to complete this work;
- 1.3 To provide the Performance and Audit Scrutiny Committee with a basis to review the 2014/15 indicative fees attached at **Appendix B**.

#### 2. Recommendation

- 2.1 That Members **note** the External Audit Plan and fees for 2013/14, along with the indicative fees for 2014/15.

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### 3. Strategic priorities

3.1 This report and attached audit plan supports all of the Council's priorities within the West Suffolk Strategic Plan 2014-16.

### 4. Key issues

4.1 The Council's appointed external auditors, Ernst & Young ("EY"), are required to provide an audit plan which covers the work they plan to perform in order to provide the Council with:

- An audit opinion on whether the financial statements of St Edmundsbury Borough Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. The Audit Plan (attached) is based on EY's risk-based approach to audit planning.

4.2 When planning the audit EY 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.
- Management's views on all of the above.

4.4 Page 3 to 5 of **Appendix A**, summarises EY's assessment of the key risks which drive the development of an effective audit for the Council, and outlines their planned audit strategy in response to those risks. Officers will be working with EY over the coming months to ensure that these risks are managed and where possible to come to an agreement over their treatment prior to the issuing of the Annual Governance Report, and Audit Opinion (due to be issued by EY by September 2014).

4.5 EY also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on our Whole of Government Accounts return.

4.6 Table 1- Fees

	<b>Indicative fee 2014/15 £</b>	<b>Planned fee 2013/14 £</b>
Total Code audit fee	57,456	57,456
Certification of claims and returns	27,610	41,096*

\* The certification of claims and returns fee has been revised from the fee previously published due to schemes that no longer require certification.

## 5. Other options considered

5.1 None applicable.

## 6. Community impact

6.1 **Crime and disorder impact** (including Section 17 of the Crime and Disorder Act 1998)

6.1.1 None

6.2 **Diversity and equality impact** (including the findings of the Equality Impact Assessment)

6.2.1 None

6.3 **Sustainability impact** (including completing a Sustainability Impact Assessment)

6.3.1 None

6.4 **Other impact** (any other impacts affecting this report)

6.4.1 None

7. **Consultation** (what consultation has been undertaken, and what were the outcomes?)

7.1 This report has been prepared in consultation with the Finance Team, Joint Leadership Team and the Portfolio Holder for Performance and Resources.

8. **Financial and resource implications** (including asset management implications)

8.1 The proposed 2013/14 audit fee of £57,456 and certification of claims and returns fee of £41,096 is within the Council's approved budget for 2013/14.

8.2 The proposed 2014/15 audit fee of £57,456 and certification of claims and return fees of £27,610 is within the Council's approved budget for 2014/15.

9. **Risk/opportunity assessment** (potential hazards or opportunities affecting corporate, service or project objectives)

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
The assessment of the key strategic or operational risks and the financial statement risks facing the Council are not correct	Medium	Assessment of key strategic or operational risks and the financial statement risks facing the Council have been identified through External Audits knowledge of the entity's operations and discussion with members and officers.	Low

## **10. Legal and policy implications**

10.1 External audit is a statutory function. EY are undertaking the audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements.

## **11. Wards affected**

11.1 All.

## **12. Background papers**

12.1 None

## **13. Documents attached**

13.1 Appendix A – Ernst & Young Audit Plan 2013/14

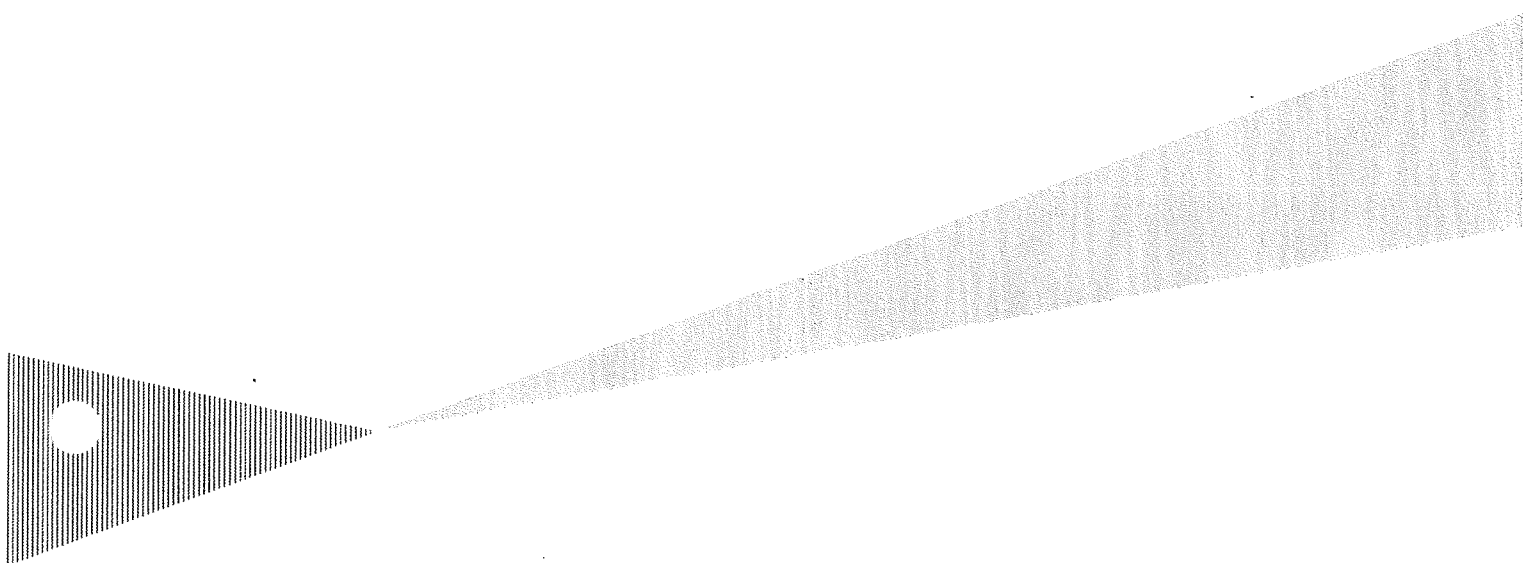
13.2 Appendix B – Ernst & Young Annual Audit and Certification Fees 2014/15

# St Edmundsbury Borough Council

Year ending 31 March 2014

Audit Plan

April 2014



**EY**

Building a better  
working world

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8 April 2014

Ref: NH/WDC/2013-14  
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Dear Councillors

## Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Performance and Audit Scrutiny Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this report with you in April 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris  
For and behalf of Ernst & Young LLP  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Overview

## Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of St Edmundsbury Borough Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory 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 your Whole of Government Accounts return.

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.
- ▶ Management's views on all of the above.

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

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

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks.

Details of our audit process and strategy are set out in more detail in section 4.

## 2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing St Edmundsbury Borough Council, identified through our knowledge of the entity's operations and discussion with members and officers.

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

Significant risks (including fraud risks)	Our audit approach
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For district council's the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for evidence of management bias; and</li> <li>▶ Evaluating the business rationale for significant unusual transactions</li> <li>▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>
<p><b>Localisation of business rates</b></p> <p>There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Council's may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<ul style="list-style-type: none"> <li>▶ We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice.</li> <li>▶ We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</li> </ul>
<p><b>System changes</b></p> <p>Our planning work has identified that the Council is changing its general ledger system from CeDAR E5 to Agresso to align itself with Forest Heath District Council as part of the Council's continued commitment to joint working and sharing key financial systems and processes. This presents a risk in terms of the completeness and accuracy of data transfer between the two systems.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ utilising the work of internal audit as much as possible;</li> <li>▶ reviewing the integrity of the transfer of general ledger data from the CeDAR E5 system to Agresso; and</li> <li>▶ performing additional early work on the relevant systems and key processes, the outcome of which will then feed into our testing strategy.</li> </ul>

We will provide an update to the Performance and Audit Scrutiny Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

### **Respective responsibilities in relation to fraud and error**

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

### 3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at St Edmundsbury Borough Council; and
2. Whether there are proper arrangements in place at St Edmundsbury Borough Council to secure economy, efficiency and effectiveness in the use of resources.

We have undertaken a high-level summary of our risk assessment and have not identified any significant risks. We have identified the following areas that we will focus on as part of our assessment.

Area of focus	Our audit approach
<p><b>Pressures from economic downturn</b></p> <p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Comprehensive Spending Review will continue to impact on the Council's budget and medium term financial planning during current and forthcoming financial years</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council's budget setting process.</li> <li>▶ The robustness of any assumptions.</li> <li>▶ The effective use of scenario planning to assist the budget setting process.</li> <li>▶ The effectiveness of in year monitoring against the budget.</li> <li>▶ The Council's approach to prioritising resources.</li> </ul>
<p><b>Localisation of business rates</b></p> <p>From April 2013, the Council will be able to retain some of its income from local business rates rather than paying the full amount back to central government. This localisation of business rates will impact upon the Council's income levels.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Whether outcomes of the new arrangements are in line with the Council's plan and the impact on the Council's Budget.</li> </ul>
<p><b>Approach to local council tax support</b></p> <p>The Local Council Tax Support (LCTS) scheme will take effect from April 2013. This will require the Council to set locally appropriate levels of council tax support.</p> <p>The move to LCTS represents a significant change for the Council and brings both financial and reputational risks.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The outcomes from the development and implementation of LCTS.</li> <li>▶ How the Council's move to LCTS has impacted on the budget setting process.</li> </ul>

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

#### **i) Financial Statement Audit.**

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

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

#### **ii) Arrangements for securing economy, efficiency and effectiveness**

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### 4.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Our audit process and strategy

### **Processes**

Our initial assessment of the key processes across the entity has concluded that we will seek to undertake a fully substantive approach to testing transactions on the grounds of efficiency and to fully address the significant risks above.

### **Analytics**

We aim to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and 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.

### **Internal audit**

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with Internal Audit and have commenced our review and re-performance of their work on the systems detailed above.

### **Use of experts**

In producing the financial statements, management will place reliance on the work undertaken by a small number of experts, including a professional valuer in relation to the valuation of property plant and equipment, and an actuary in relation to the Council's liability to the local government pension scheme administered by Suffolk County Council. We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of land and property values, and the work undertaken by the pension scheme actuary appointed by Suffolk County Council.

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and valuations.

### **Mandatory procedures**

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

#### ***Mandatory procedures required by auditing standards on:***

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

**Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

**4.3 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 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 have not yet finalised our overall materiality for the Council's financial statements, but this will be set in the range of between £0.7m and £1.4m based on 1% - 2% of gross operating expenditure respectively. We will communicate our final materiality levels to members at a future committee meeting.

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.

**4.4 Fees**

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of St Edmundsbury Borough Council is £57,456.

**4.5 Your audit team**

The engagement team is led by Neil Harris, who has significant experience on St Edmundsbury Borough Council. Neil Harris is supported by Melanie Richardson who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Resources and Performance. Mark Russell will supervise the on-site audit team, is the key point of contact for the finance team and is responsible for raising and discussing emerging issues with officers.

**4.6 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Performance and Audit Scrutiny Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Performance and Audit Scrutiny Committee in May and September, incorporating the outputs from the interim audit and our year-end procedures respectively where appropriate. From time to time matters may arise that require immediate communication with those charged with governance and we will discuss them with the Performance and Audit Scrutiny Committee Chairman as appropriate.



## Our audit process and strategy

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Committee timetable	Deliverables
High level planning:	<b>December</b>		
Risk assessment and setting of scopes	<b>January</b>		
Testing of routine processes and controls	<b>March - April</b>	Performance & Audit Scrutiny Committee	Audit Plan
	<b>May</b>	Performance & Audit Scrutiny Committee	Interim results report (Where appropriate)
Year-end audit including WGA	<b>July – September</b>	Performance & Audit Scrutiny Committee	Report to those charged with governance
			Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate
Reporting	<b>October</b>	Performance & Audit Scrutiny Committee	Annual Audit Letter

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

## 5. Independence

### 5.1 Introduction

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

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

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.

## 5.2 Relationships, services and related threats and safeguards

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

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

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

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 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 your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

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

**Other threats**

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

**Overall Assessment**

Overall, we consider that the 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 Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

**5.3 Other required communications**

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 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14 £'000	Actual Fee 2012/13 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>57,456</b>	<b>57,456</b>	
Certification of claims and returns*	46,700	31,810	The 2012/13 actual fee includes additional fees of £2,310 in respect of the Housing and Council Tax Subsidy Benefit claim.

\* The Audit Commission has based the 2013/14 indicative scale fee on the fee charged for 2011/12, adjusted to reflect the overall 40% reduction from the procurement exercise and the reduction in the number of claims that require auditing.

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

- ▶ Officers meeting the agreed timetable of deliverables.
- ▶ We are able to place reliance, as planned, on the work of internal audit.
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year.
- ▶ No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based.
- ▶ Our accounts opinion and value for money conclusion being unqualified.
- ▶ Appropriate quality of documentation is provided by the audited body.
- ▶ Effective control environment.
- ▶ There are no questions asked or objections made by local government electors.

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

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

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee, or equivalent, of audited clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Report to those charged with governance
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Report to those charged with governance
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Report to those charged with governance
<p><b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Report to those charged with governance
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Report to those charged with governance

UK required communications with those charged with governance

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the committee may be aware of</li> </ul>	<p>Report to those charged with governance</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> <li>▶ Relationships between Ernst &amp; Young, the audited body and senior management</li> <li>▶ Services provided by Ernst &amp; Young that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by Ernst &amp; Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the ethical standards</li> <li>▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Report to those charged with governance</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Report to those charged with governance</p>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been</li> </ul>	<p>Audit Plan</p>

UK required communications with those charged with governance

Required communication	Reference
restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	
<b>Opening Balances (initial audits)</b> ▶ Findings and issues regarding the opening balance of initial audits	Report to those charged with governance
<b>Certification work</b> ▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
<b>Fee Information</b> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary



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10 April 2014

Ref:

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Dear Ian

## St Edmundsbury Borough Council

### Annual Audit and Certification Fees 2014/15

We are writing to confirm the audit and certification work that we propose to undertake for the 2014/15 financial year at St Edmundsbury Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.

#### Indicative Audit Fee

The audit fee covers the:

- ▶ Audit of the financial statements;
- ▶ Value for money conclusion; and
- ▶ Whole of Government accounts.

For the 2014/15 financial year the Audit Commission has set the scale fee for each audited body as part of the recent 5 year procurement exercise and consequently it is not liable to increase in that period without a change in scope.

The 2014/15 scale fee is based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ The financial statements will be available to us in line with the agreed timetable;
- ▶ Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

As we have not yet completed our audit for 2013/14, our audit planning process for 2014/15 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract with the Audit Commission.

### Certification fee

The Audit Commission has set a composite indicative fee for certification work for each audited body. The indicative fee is based on the actual 2012/13 certification fees available adjusted to reflect any known schemes that no longer require auditor certification. The Audit Commission has revised the previously published 2013/14 indicative certification fee to reflect further schemes that no longer require auditor certification.

The composite indicative fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

The indicative certification fee for 2014/15 relates to work on grant claims and returns for the year ended 31 March 2015. We have set the certification fee at the composite indicative fee level. We will update our risk assessment after we complete 2013/14 certification work, and to reflect further changes in the Audit Commission's certification arrangements.

### Summary of Fees

	Indicative fee 2014/15 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Code audit fee	57,456	57,456	57,456
Certification of claims and returns	27,610	41,096	31,810

Any additional work that we may agree to undertake (outside of the Audit Code of Practice) will be separately negotiated and agreed with you in advance.



## Billing

The indicative audit fee will be billed in 4 quarterly instalments of £21,266.

## Audit Plan

Our plan for the audit of the financial statements is expected to be issued in April 2015. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the Value for Money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Resources and Performance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Performance and Audit Scrutiny Committee.

## Audit team

The key members of the audit team for the 2014/15 financial year are:

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We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully

Neil Harris

Director

For and on behalf of Ernst & Young LLP

cc. Rachael Mann, Head of Resources and Performance

Sarah Broughton, Chair of the Performance and Audit Scrutiny Committee