Milton Keynes Council

Year ending 31 March 2016

Audit Plan

9 March 2016

Ernst & Young LLP

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Audit Committee
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9 March 2016

Dear Committee Members

Audit Plan

I am currently covering for Maria Grindley, your Engagement Lead for the 2015-16 audit who is currently on a six month sabbatical and is due to return to work in early April 2016.

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 2015-16 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.

We welcome the opportunity to discuss this Audit Plan with you on 29 March 2016 and to 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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Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and 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 from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

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

- Our audit opinion on whether the financial statements of Milton Keynes Council and its group give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;

- 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.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)	Our audit approach
Property asset valuation	
Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements. One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on property, plant and equipment given the extent of the Council's capital programme.	Our approach will focus on: ► Assessing and placing reliance on property valuation specialists commissioned by the Council and the auditor. ► Assessing and using an independent valuer's market report to assess and challenge the assumptions and judgements used by the Council's external valuer in valuing the Council's property. ► Testing the accounting entries made for revaluations. ► Testing the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.
Group boundary	
One of the Council's subsidiaries, Milton Keynes Service Partnership LLP (MKSP), has ceased trading and its employees transferred back in-house on 1 December 2015. The intention is to wind up the LLP with effect from 31 March 2016 and in order to do so, the LLP cannot trade for the previous three months. This gives rise to a risk of potential cut off issues and misclassification in respect of MKSP income received and expenditure incurred from December 2015 to year end.	We will review and test the allocation of transactions relating to MKSP between the accounts of the LLP and the Council in the period December 2015 to March 2016.
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will: ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date
Risk of management override	
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.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias ► Evaluating the business rationale for significant unusual transactions

Other financial statement risks

Better Care Fund	
The Better Care Fund (BCF) is a major policy initiative between local authorities, CCGs and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. The intention is that partners use the BCF to jointly commission health and social care services at a local level From 1 April 2015 BCF has been set up as a pooled budget between the Council and the local Clinical Commissioning Group (CCG). The pool is hosted by the Council and has total funding of £14 million in 2015-16. Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding and inconsistencies between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the BCF.	Our approach will focus on: ► Examining relevant S75 agreements entered into by the Council ► Reviewing proposed accounting treatments for the Better Care Fund and the disclosures made under relevant accounting standards. As part of this, we will consider what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement. ► Performing testing to gain assurance that the Council has appropriately accounted for its share of the BCF. We will keep our approach under review, pending any further guidance from CIPFA, the National Audit Office and PSAA.
Related party transactions	
Due to the change in structure of the Council's group during the year following the closure of MKSP, the nature of the Council's relationships with the other entities in the group and how they have changed during the year may not be fully disclosed.	We will review the related party disclosures made in the accounts to ensure these properly reflect the nature of the relationships and how they have changed in the year.

2.1 Responsibilities in respect of fraud and error

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

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

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

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

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
For 2015-16 this is based on the overall evaluation criterion:

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment 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 following significant VFM risks which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
Financial pressures	
The Council's finances continue to be under significant pressure in the medium term. The Council has a savings requirement of £21.6 million in 2016-17. The current medium term financial plan has a cumulative budget gap of £31.5 million by 2019-20. The Council is currently reporting an overspend of £2.7 million on its 2015-16 general fund budget, and that it will deliver 89% of planned savings (£20.1 million). The majority of the savings balance is expected to be delivered in future years. The Council has a good track record of delivering its budgets, with savings identified and delivered to close the budget gaps. However, the Council has to continue to deliver significant savings year on year in order to bridge the gap and balance its budget.	Our approach will continue to focus on: ► Review of the Council's process for financial planning ► The robustness of budget assumptions ► The effective use of scenario planning to assist the budget setting process ► The Council's approach to prioritising resources ► Achievement of the 2015-16 budget, including delivery of savings

Transfer of support services to LGSS	
As part of its response to its financial situation, the Council is currently developing proposals to transfer a number of support services into the Local Government Shared Service (LGSS) partnership with effect from 1 April 2016. Final approval will sought from the Council in March 2016. LGSS is owned jointly by Northamptonshire and Cambridgeshire County Councils under a joint committee structure and if approval is given, the Council will become a partner in the arrangement. The outline business case indicates that savings of £4.5 million will be delivered between 2016 and 2021, which will be shared with LGSS, as well as a range of other non-financial benefits.	Our approach will focus on: ► Assessing the decision making process ► Reviewing the project planning and assessment of financial and other benefits as well as risks ► Reviewing legal advice obtained ► Considering any matters arising following the implementation and subsequent operations of the partnership that may relate to decisions taken during the 2015-2016 financial year.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

- Financial statements
- Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

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

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

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

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

We will assess the effectiveness of internal controls in order to inform our assessment of inherent risk at transaction level. At planning stage it is not our intention to seek to place reliance on internal controls as we have assessed that a fully substantive approach will be more efficient.

Early substantive testing

We intend to undertake detailed testing of transactions in the period April to December 2015. We plan to focus this testing on expenditure in the following areas:

- Schools
- Payroll
- Other expenditure, including social care.

The balance sheet will be tested at year end.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries, in particular payroll and journal entries. We have collected the journal entry and payroll data at Month 9 and will do so again at year end. These tools:

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

Internal audit

We will review internal audit plans and the results of their work. Where internal audit reports identify issues that could impact the year-end financial statements or our value for money conclusion, we will reflect the findings in our detailed audit planning.

Use of specialists

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

Area	Specialists
Pensions	Barnett Waddingham (the Council's actuary) PWC review of the work of local government actuaries (including Hymans Robertson), commissioned by the NAO EY pensions team review of the PWC report
Property valuation	Mouchel and in-house valuers (the Council's property valuers) Gerald Eve report on property market conditions (independent valuers) commissioned by the NAO EY property team review of the Gerald Eve report
NNDR appeals	Inform CPI /Analyse Local (the Council's NNDR appeals valuation)
Loan fair values	Arlingclose (the Council's treasury advisors)

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

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

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

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

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

We have determined that overall materiality for the financial statements of the Council is £13 million based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £652,000 to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the Council is £175,763.

4.6 Your audit team

The engagement team is led by Maria Grindley who has significant experience of local government external audit. Neil Harris is covering this role on an interim basis until April 2016. A new manager, Penny Irwin, has been appointed for the 2015/16 audit year. Penny is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015-16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

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

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	**December 2015**		
Risk assessment and setting of scopes	**February- March 2016**	**March 2016**	Audit Plan
Early substantive testing	**March-April 2016**	**June 2016**	Progress report
Year-end audit	**July-September 2016**		
Completion of audit	**September 2016**	**September 2016**	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and, overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	**October 2016**	**November 2016**	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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► 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.	► 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; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

We carried out non-audit work on the certification of the Council's 2014-15 teachers' pensions return as a reporting accountant in 2015. The fee charged was £12,850. We also carried out work on the 2014-15 pooling of housing capital receipts return with a fee of £6,000. Therefore the ratio of non-audit fees to audit fees for 2014-15 was approximately 1:13. No additional safeguards were required. Certification arrangements have not yet been made for the 2015-16 returns.

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley and Neil Harris, the audit engagement directors, and the audit engagement team have not been compromised.

5.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	175,763	175,763	233,280	
Total Audit Fee – Code work	**175,763**	**175,763**	**233,280**	
Certification of claims and returns- housing benefits	18,302	18,302	21,360	
Non-audit work- teachers' pensions return	TBC	N/A	12,850	
Non- audit work- pooling of housing capital receipts return	TBC	N/A	6,000	

All fees exclude VAT.

The agreed fee presented above 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 response to our queries is within agreed timeframes; and
- The Council has an effective control environment.

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

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

Appendix B UK required communications with those charged with governance

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

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
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	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
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	► Report to those charged with governance
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	► Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
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	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director'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 Plan ► Report to those charged with governance
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	► Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	► Report to those charged with governance
Fee Information ► 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 ► Annual Audit Letter if considered necessary
Group audits ► An overview of the type of work to be performed on the financial information of the components ► An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ► Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ► Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ► Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	► Audit Plan ► Report to those charged with governance

Appendix C Detailed scopes

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

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- **Full scope**: locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).

- **Specific scope**: locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.

- **Review Scope**: review scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

- **Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Our audit approach is risk-based, and we have assessed the risks presented by the two component companies within the Milton Keynes Council group. We have assessed that Milton Keynes Development Partnership LLP (MKDP) and Milton Keynes Service Partnership LLP (MKSP) are specific scope based on the long term assets held by MKDP and expenditure of MKSP. These are the preliminary audit scopes we have adopted to enable us to report on the group accounts. Our audit approach is risk based, and therefore the data on coverage is provided for your information only.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Our involvement can be summarised as follows:

- Review of the results and work papers relating to the following key areas:

    - MKDP- property assets

    - MKSP- payroll costs

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