

Milton Keynes Council

Year ending 31 March 2014

Audit Progress Report

8 April 2014



Building a better
working world

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Audit Committee
Milton Keynes Council
Civic Offices
1 Saxon Gate East
Central Milton Keynes
MK9 3EJ

Dear Audit Committee members

Audit Progress Report – 2013/14

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Audit Committee with an overview of the stage we have reached in your 2013/14 audit and ensure our audit is aligned with the Committee's service expectations.

Our audit will be undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

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

Yours faithfully

Mick West
Director
For and behalf of Ernst & Young LLP
Enc

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Contents

Work completed	2
Timetable	3
Appendix A Audit Progress.....	4

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 Results Report 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.

Work completed

Planning our audit

We have completed our planning procedures for our 2013/14 audit. We have issued our Audit Plan to officers for comment and it is included at Appendix B.

As part of our planning we identified:

- ▶ Management overriding controls that otherwise appear to be operating effectively as a general significant risk based on the requirements of auditing standards. We identify and respond to this fraud risk on every audit engagement.
- ▶ The introduction of local business rates as an area for audit attention in our financial statements work.
- ▶ The medium term financial plan as a key area of attention for our value for money conclusion work.

Interim audit

We commenced our interim audit in February and are nearing completion of this work. As part of this visit we:

- Completed our planning procedures;
- Issued letters to the Corporate Director Resources, Monitoring Officer, the Chair of the Audit Committee and Internal Audit to update our understanding of management and oversight processes as required by ISA 240;
- Performed walkthroughs for each of the key financial systems; and
- Performed key controls testing on the accounts payable, accounts receivable, business rates, council tax, housing benefits, and housing rents systems.

We are finalising our key findings from this work with officers and will highlight any key issues to those charged with governance in due course.

Audit Committee Briefings

I have included at Appendix C our Audit Committee Briefing for the local government sector. This briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on your organisation, the health sector and the audits that we undertake.

Your audit team

Your current Director is Mick West. Standing guidance which serves as the terms of appointment for auditors, states auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. On transfer to EY, an extension to seven years was granted by the Audit Commission in accordance with the standing guidance. 2013/14 will therefore be the final year Mick will be the Director for Milton Keynes Council and a new Director will be appointed for the 2014/15 audit year.

Timetable

Audit Committee Timeline

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 2013/14 Audit Committee cycle.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below. Where required, we will issue an Interim Report, summarising the findings from our audit at that stage. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate.

Following the conclusion of our audit we will prepare a Management Letter in order to communicate to the Trust and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	April 2013		Audit Fee letter Dated 17 April 2013
Risk assessment and setting of scopes	January/ March	April 2014	Audit Plan Dated 11 March 2014
Testing of routine processes and controls	February/ April	July 2014	Progress Report
Year-end audit	June/ August		
		September 2014	Report to those charged with governance Auditor's report (including our opinion on the financial statements and value for money conclusion). The report to the NAO on WGA Audit completion certificate
	October	November 2014	Annual Audit Letter
Grant claims	June/ November	January 2015	Report on the audit of grant claims

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

Appendix A: Audit Progress

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	April 2013	Complete	
Audit Plan	March 2014	Draft	On agenda
Report to those charged with governance	June 2014		
Audit Report (including opinion and value for money conclusion)	June 2014		
Audit Certificate	June 2014		
WGA Submission	June 2014		
Annual Audit Letter	July 2014		

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Audit Plan

Year end 31 March 2014

Milton Keynes council

March 2014

Ernst & Young LLP



Audit Committee

Milton Keynes Council
Civic Offices
1 Saxon Gate East
Central Milton Keynes
MK8 3EJ

11 March 2014

Ref: 14MKC_APLAN

Email: MWest@uk.ey.com

Dear Member


Audit Plan – Milton Keynes Council

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2013-14 audit. We do so 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 on 8 April 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Mick West
For and behalf of Ernst & Young LLP
Enc

Contents

1. Overview	2
2. Financial Statement Risks	4
3. Economy, Efficiency & Effectiveness	6
4. Certification work.....	7
5. Our audit process and strategy.....	8
6. Independence.....	12
Appendix A Fees.....	15
Appendix B UK required communications with those charged with governance.	16
Appendix C Detailed Scopes.....	19

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 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 conclusion on arrangements to secure economy, efficiency and effectiveness – i.e. the value for money conclusion.

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 parts 2 and 3 of this report we provide more detail on our assessment of the risks that we reach the wrong opinion or value for money conclusion. In part 4 we provide detail of the certification work. Our audit process and strategy are set out in more detail in section 5, and summarised below.

As part of our planning we have identified one significant risks to the audit of financial statements:

- ▶ Management overriding controls that otherwise appear to be operating effectively as a general significant risk based on the requirements of auditing standards. We identify and respond to this fraud risk on every audit engagement.

We identified the introduction of local business rates as an area for audit attention in our financial statements work. We identified the medium term financial plan as a key area of attention for our value for money conclusion work

Financial Statement Audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider the size of useable reserves, the Council's financial position, its public profile and the reporting and challenge history. Our audit is designed to identify errors above materiality.

We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

The key members of our audit team are Mick West - Director, Carol Ryan - Senior Manager; and Maryrose Lacey - Lead Executive.

Value for money conclusion

We adopt an integrated audit approach: our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Certification work

There is no longer a requirement to certify business rates returns or council tax benefits subsidy claims under Audit Commission certification arrangements.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing the Council identified through our knowledge its operations and discussion with members and officers.

We assess how they impact on our audit approach and set out below the key areas of focus for our audit of the financial statements. A significant risk is an identified and assessed risk of material misstatement that, in an auditor's judgment, requires special audit consideration. We identified no significant risks other than the general risk of management override.

Significant risks (including fraud risks)	Our audit approach
<p>Risk of management override</p> <p>As identified in ISA (UK & 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>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ 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; and ▶ Evaluating the business rationale for significant unusual transactions.
<p>Other financial statement risks</p> <p>Business rates changes in 2013-14</p> <p>There have been changes in how the Council must account for business rates from 2013-14 following the localisation of the scheme. Council's must now account for provision for appeals. In addition there are new calculations and presentation of entries including tariffs/ top-ups</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review of the controls and staff preparation ▶ Review and testing of the calculation of provisions and revised disclosures

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 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.

3. Economy, Efficiency & Effectiveness

Our work will focus on whether there are proper arrangements in place:

- ▶ For securing financial resilience
- ▶ To secure economy, efficiency and effectiveness in the use of resources

Our initial work includes:

- ▶ Discussions with officers
- ▶ Discussions with internal audit
- ▶ Reviewing reports and minutes
- ▶ Reviewing the risk register
- ▶ Our financial statements audit planning
- ▶ Attending the Audit Committee

At the date of this report we have identified no significant risks. These are risks that would require specific risk-based work to ensure we can issue a safe value for money conclusion. However, we have identified the following key area that we will consider to support our value for money conclusion. We acknowledge the Council operates in a context of increasing financial pressure.

Other risks	Our audit approach
Medium term financial planning	
<p>The Council has identified a cumulative funding gap of £54m over the life of its medium term financial plan (2014-15 to 2018-19). It is developing a forward strategy which has been tasked with addressing this gap.</p> <p>The Revenue and Capital Budget monitoring report to Cabinet in March 2014 indicates the progress against the budget and savings targets. The forecast outturn is an underspend of £0.5m against the revenue budget; and a 90% achievement of the savings plan. Of this, 2% is not deliverable and the remainder will be achieved in 2014-15.</p>	<p>Financial resilience</p> <p>Our approach will focus on reviewing:</p> <ul style="list-style-type: none"> ▶ The achievement of the planned savings in 2013-14 ▶ 2014-15 budget setting considerations ▶ The Council's preparation of the forward strategy for 2014-15 to 2018-19.

4. Certification work

Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. Certification work is not an audit.

The work necessary varies according to the value of the claim or return and the requirements of the government department or grant-paying body. Broadly for claims and returns:

- ▶ Below £125,000 - we carry out no work
- ▶ From £125,000 and £500,000 – we undertake limited tests to agree form entries to underlying records, but do not test the expenditure or data is eligible
- ▶ Over £500,000 - we plan and perform our work following the certification instruction. We assess the control environment for preparing the claim or return and decide how much we can rely on the controls. Based on our assessment, we tailor our approach to agree form entries to underlying records and test the expenditure or data is eligible.

We are planning to carry out certification work for the:

- ▶ Housing benefit scheme – based on previous experience we expect to carry out extended testing known as 40+ testing on up to nine areas of the claim
- ▶ Teachers' pensions return
- ▶ Pooling of housing capital receipts return

Where possible we integrate our certification work with our opinion and other work. We also aim to rely on the work of internal audit and benefits staff where possible.

We will report to the Audit Committee the results of our certification work.

The Audit Commission has set a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2011-12 adjusted to reflect the fact that a number of schemes will no longer require auditor certification in 2013-14, and incorporating a 40 per cent reduction.

The indicative fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

5. Our audit process and strategy

Objective and scope of our audit

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

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources

We issue a two-part auditor's 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 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.
- ▶ 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.

Audit process overview

Our financial statements audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Review and re-performance of the work of internal audit
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts for property valuations and pensions
- ▶ Substantive tests of detail of transactions and amounts.

Processes

Our initial assessment across the Council has identified the following key processes where we will seek to test key controls:

- ▶ Accounts receivable
- ▶ Business rates
- ▶ Council tax
- ▶ Housing and council tax benefits
- ▶ Housing rents
- ▶ Payroll
- ▶ Procure to pay (accounts payable)

Analytics

We will aim to use our computer-based analytics tools to enable us to capture whole populations of 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
- ▶ Give greater likelihood of identifying errors than random sampling techniques

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

Internal audit

We 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 programme where issues are raised that could impact the year-end financial statements.

Use of experts

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 to assess the work undertaken by the actuary to the scheme.

Other procedures

In addition to the key areas of emphasis outlined 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 on:

- ▶ 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
- ▶ 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

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 consolidated financial statements, but this will be set in the range of between £6.86m and £13.7m based on 1% - 2% of gross service expenditure. We will communicate our final materiality levels to members at a future Audit 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.

5.2 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 scale fee for the audit of the Council is £233,280, together with an estimated fee of £26,500 for the certification of claims and returns.

5.3 Your audit team

The engagement team is led by Mick West, who has significant experience on unitary authorities. Mick is supported by Carol Ryan who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the finance team.

5.4 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 audit and governance 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 report to the Audit Committee in September 2014, incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication and we will discuss them with the Council as appropriate.

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	Audit and Governance Committee timetable	Deliverables
High level planning:	April 2013		Audit Fee letter Dated 17 April 2013
Risk assessment and setting of scopes	January/ March	April 2014	Audit Plan
Testing of routine processes and controls	February/ April	July 2014	Progress Report
Year-end audit	June/ August		
		September 2014	Report to those charged with governance Auditor’s report (including our opinion on the financial statements and value for money conclusion). The report to the NAO on WGA Audit completion certificate
	October	November 2014	Annual Audit Letter
Grant claims	June/ November	January 2015	Report on the audit of grant claims

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

6. Independence

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"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ 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 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 ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. 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 receives 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 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 decision 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 Mick West, your audit engagement director and the audit engagement team have not been compromised.

6.1 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 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 28 June 2013 and can be found here:

[UK 2013 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14	Actual Fee 2012-13
Total Audit Fee - Code work	£233,280	£233,280
Certification of claims and returns	£26,500	£33,217*

*includes £5,817 addition to scale fee for the non-domestic rates return and the housing and council tax benefits claim.

The actual audit fee for 2012-13 and the planned audit fee for 2013-14 are the same as the Audit Commission scale fee.

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 use of resources criteria on which our conclusion will be based
- ▶ Our financial statements opinions and use of resources conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ An effective control environment is in place
- ▶ We have no significant issues to report to the NAO on Whole of Government Accounts

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 Director of Finance and Corporate Services and the Audit Committee 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.

The fee for the certification of grant claims and returns is based on the indicative scale fee set by the Audit Commission. The Audit Commission has set a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2011-12 adjusted to reflect the fact that the non-domestic rates return will no longer require auditor certification, and incorporating a 40 per cent reduction. The Audit Commission proposes to reduce the fee further as council tax benefits are no longer included in the benefits claim.

Appendix B UK required communications with those charged with governance.

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

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ 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 auditor's report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ 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
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of those charged with governance 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
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures 	Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	
Consideration of laws and regulations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ 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 those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that those charged with governance may be aware of 	
Independence	Audit Plan
Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	Report to those charged with governance
<ul style="list-style-type: none"> ▶ 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 	
Going concern	Report to those charged with governance
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	
<ul style="list-style-type: none"> ▶ 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 	
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance

Required communication	Reference
Group audits	
<ul style="list-style-type: none"> ▶ 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 	<p>Report to those charged with governance and Annual audit letter if considered necessary</p>
Fee Information	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit plan</p> <p>Report to those charged with governance</p>
	<p>Annual audit letter if considered necessary</p>

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). There are two reporting units – Milton Keynes Development Partnership MKDP) and Milton Keynes Services Partnership (MKSP).

We set audit scopes for each reporting unit which, when taken 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:** units 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 EY Luton audit team for 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 the consolidated audit and may be higher than the materiality threshold for the individual units).
- ▶ **Specific scope:** units where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the EY Luton audit team.
- ▶ **Limited Scope:** limited 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.

We have assessed that MKDP and MKSP are specific scope based on the long term assets held by MKDP (3% of the group balance) and expenditure of MKSP (3% of the group gross expenditure). 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 the two significant reporting units. Our involvement can be summarised as follows:

Body name

All	The audit team will be led by the Director, Senior Manager and Lead Executive of the primary audit. All key audit team members will attend the group audit team's planning event to be held in Milton Keynes in April
All	Review of the results and work papers relating to the following key areas: MKDP – long term fixed assets MKSP – payroll costs
All	All key audit team members will attend the group audit team's closing event to be held in Milton Keynes in September

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Local Government Audit Committee briefing

Contents at a glance

Sector and economic news

Accounting, auditing and governance

Regulation news

Find out more

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Building a better
working world



Sector and economic news

Economic Outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.'

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'

Enhancements to Bellwin Grant

The government is changing the terms of the Bellwin scheme to help local authorities meet costs associated with the recent severe weather. The changes will ensure the grant is paid at 100% above the threshold instead of 85%, extend the eligible spending period to the end of March 2014, reduce the thresholds for county councils and unitary authorities, and allow upper tier authorities with fire responsibilities to claim on the same basis as standalone fire authorities for fire related costs.

The Bellwin scheme was activated in December 2013. Ministers have also committed to a longer term review of the Bellwin scheme to consider changes to its operation which may be required due to more frequent and challenging weather events.



Sector and economic news

Making best use of the Better Care Fund

Announced by the government in the June 2013 spending round, the £3.8bn Integration Transformation Fund now known as the Better Care Fund is described as 'a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities'. The Fund, available from April 2015, offers an opportunity to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care. The intention is that social care and health care be fully integrated by 2018.

For Local Authorities, this will require the contribution of the Social Care Capital grant and Disabled Facilities Grant allocations for 2015/16 to the pooled budget.

Health and Wellbeing Board areas were required to submit a draft plan for their use of this fund by 14th February, and the revised plan by 4th April 2014. The King's Fund has published 'Making best use of the Better Care Fund – Spending to Save?' which 'offers an evidence-based guide to aid the discussions between clinical commissioning groups, Local Authorities and health and wellbeing boards' and presents evidence from The King's Fund and others in a number of different areas including primary prevention, selfcare, and case management.



Accounting, auditing and governance

Greater Business Challenges call for Stronger Audit Committees

Audit committees have traditionally comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- ▶ **Financial expertise:** the committee needs a keen understanding of internal controls and experience in disclosure to its key stakeholders.
- ▶ **Accounting and auditing expertise:** one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- ▶ **Leadership:** the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- ▶ **Industry or sector knowledge:** it's important to have members with sector-specific knowledge – including an understanding of the regulatory environment.



Regulation news

Business rates valuation: a consultation

Since 1 April 2013, local government has had a 50% share in business rates income, meaning that local authorities now carry a 50% share of the risk of reductions and refunds from challenges against rateable value. This means that local authorities have to forecast the impact of successful challenges on their future income, a task made difficult by the large number of speculative challenges. The government has launched a consultation, which lasted for 12 weeks until 3 March 2014, on proposals aimed at reforming the appeals process. The objectives of the proposals under consultation are to:

- ▶ Improve transparency of the valuation process
- ▶ Bring business rates into line with the way official decisions are normally challenged
- ▶ Enshrine in law a more formal separation between the Valuation Office Agency (a government taxation setting body) and the Valuation Tribunal for England (the judicial body which reviews decisions made by the VOA)

The government intends to implement these proposals from 1 October 2014.

Technical Reforms to Council Tax: national discount for annexes

Between August and October 2013, the government ran a consultation on the proposed introduction of a discount on the council tax for annexes, where such annexes are occupied by a member of the family of an occupier of the main dwelling. The responses to this consultation were published in December 2013, and the government is planning to implement its proposals. The majority of respondents supported the government's proposed discount of 50%. However, over half of respondents considered that the implementation of this policy would lead to extra costs, mainly in the areas of promotion, IT and administration. The government does not consider that the administration of the new discount will constitute a new burden, as under Regulation 14 of the Council Tax (Administration and Enforcement) Regulations 1992, billing authorities already have a statutory duty to ascertain whether a property is entitled to a discount. However, the overall cost of the discount will be reimbursed to billing authorities by DCLG.



Regulation news

Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits.

The Audit Commission has identified where some of its key functions will be transferred to. These include:

- ▶ The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- ▶ The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter Fraud will be transferred to.



Find out more

Economic Outlook

See the full analysis at:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Enhancements to Bellwin Grant

Read more at:

<https://www.gov.uk/government/news/more-support-for-communities-affected-by-floods>

Making best use of the Better Care Fund

Find out more at:

<http://www.local.gov.uk/documents/10180/12193/Developing+plans+for+better+care+fund+guidance.pdf/734c155e-7820-4761-976a-6c56053c0e78>

<http://www.kingsfund.org.uk/publications/making-best-use-better-care-fund>

Audit Committee Challenges

Read the latest briefing at:

[http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/\\$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf)

Consultation on checking and challenging your rateable value

Find out more at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf

Technical Reforms to Council Tax: national discount for annexes

Find out more at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263411/131115-_Annex_A-_Draft_summary_of_responses_on_annexes_consultation-_pr.pdf

Local Audit and Accountability Act 2014

Find out more at:

<http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/>

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