



# CAMBRIDGESHIRE COUNTY COUNCIL

## AUDIT PLAN

Audit for the year ending 31 March 2018

Date of issue: 12 March 2018

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

We have pleasure in presenting our Audit Planning Report to the Audit and Accounts Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

It summarises the planned audit strategy for Cambridgeshire County Council ('the Council') for the year ending 31 March 2018; comprising materiality, key audit risks and the planned approach to these; together with the audit timetable and the BDO team. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. As the purpose of the audit is for us to express an opinion on the Council's financial statements for the year ending 31 March 2018, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit and Accounts Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

## AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

## YOUR BDO TEAM

Core team	Name	Contact details	Key responsibilities
<div>Lisa Clampin Engagement Lead</div>	<b>Lisa Clampin</b> Engagement Lead	Tel: 01473 320 716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
<div>Barry Pryke Engagement Manager</div>	<b>Barry Pryke</b> Engagement Manager	Tel: 01473 320 793 barry.pryke@bdo.co.uk	Management of the audit
<div>Ross Beard Senior Auditor</div>	<b>Ross Beard</b> Senior Auditor	Tel: 01473 320 785 ross.beard@bdo.co.uk	Day to day supervision of the on-site audit

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

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

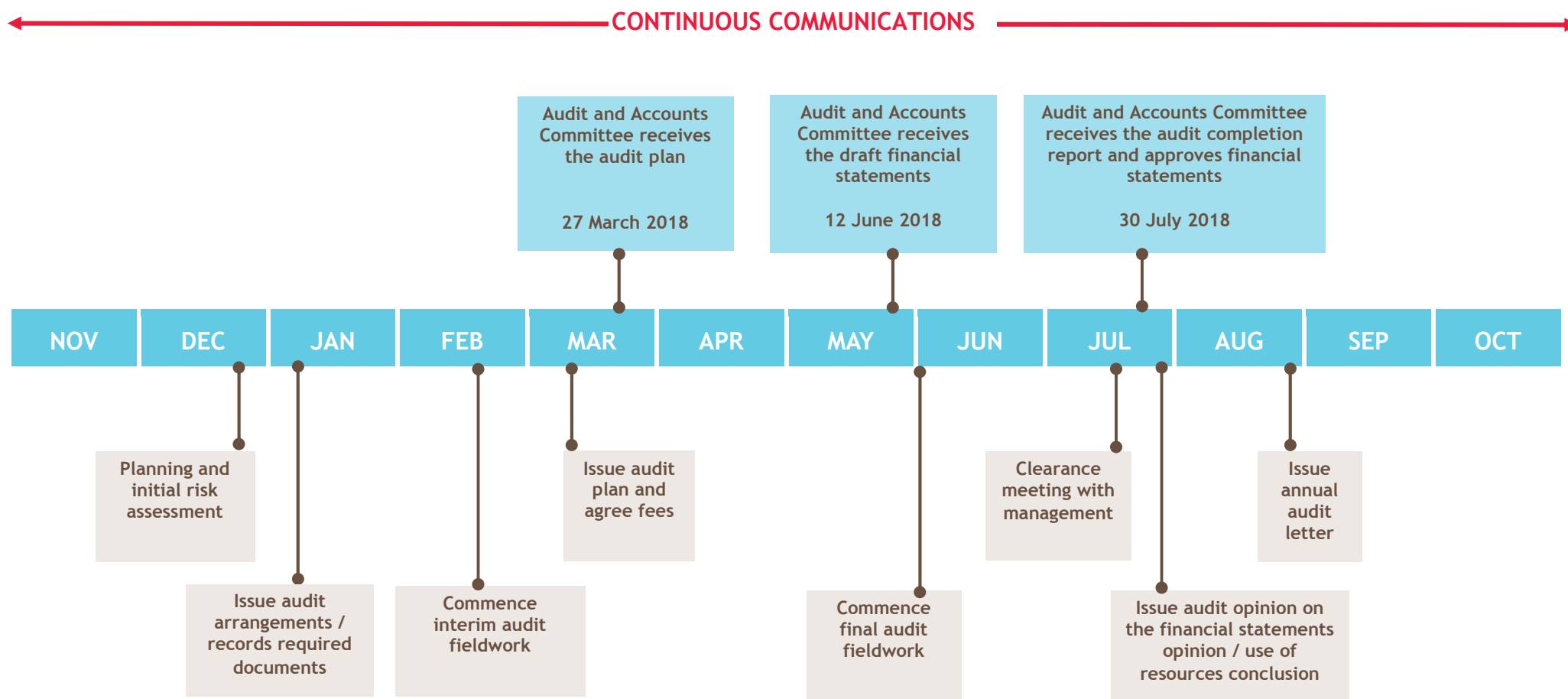
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

# ENGAGEMENT TIMETABLE

## TIMETABLE

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



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

Our audit objective is to form an opinion on whether:

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

## ADDITIONAL POWERS AND DUTIES

<b>6</b> Where necessary: <ul style="list-style-type: none"> <li>consider the issue of a report in the public interest</li> <li>make a written recommendation to the Council.</li> </ul>	<b>7</b> Where necessary: <ul style="list-style-type: none"> <li>consider electors' questions about the accounts and consider objections</li> <li>apply to the court for a declaration that an item of account is contrary to law</li> <li>consider whether to issue an advisory notice or make an application for judicial review.</li> </ul>
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# MATERIALITY

## COUNCIL MATERIALITY

We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Council’s financial statements.

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Cambridgeshire County Council	£16,300,000	£326,000

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

Planning materiality for the Council has been based initially on 1.75% of prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

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

# OVERALL AUDIT STRATEGY

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

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

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

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

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

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

## Audit risks and planned audit responses

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has defined sub criteria, each of which we will consider as part of our risk assessment process:

- informed decision making
- sustainable resource deployment
- working with partners and other third parties.

## Internal audit

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

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

## Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the Council's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud.

We expect Audit and Accounts Committee Members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.



# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk [SR] ■ Normal risk [NR]

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override [SR]	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Review accounting estimates for evidence of management bias and evaluate whether this represents a risk of material misstatement.</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.
Revenue recognition [SR]	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants that require conditions to be met before they may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence and accuracy of fees and charges income recorded in the CIES.</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure where testing will be focussed.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Carry out audit procedures to gain an understanding of the Council's internal control environment for the significant income and expenditure streams, including how this operates to ensure that expenditure is recognised in the correct accounting period.</li> <li>• Test an increased sample of grants subject to performance and / or conditions to confirm that the conditions of the grant have been met before the income is recognised in the CIES.</li> <li>• Test an increased sample of fees and charges income to ensure it has been recorded in the correct period.</li> <li>• Test an increased sample of expenditure to ensure it has been recorded in the correct period and accounted for in accordance with the CIPFA Code of Practice on Local Authority Accounting ('the CIPFA Code').</li> </ul>	Government grant funding will be agreed to information published by the sponsoring Department.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations [SR]	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable dependent on the category of asset) at the balance sheet date.</p> <p>Management engages external valuers to undertake a rolling revaluation programme which ensures that all assets are revalued at least once every five years. Assets are valued as at 1 April of the financial year in question and certain assets, based on type and value, are subject to a desktop valuation as at 31 March.</p> <p>There is a risk over the valuation of land and buildings where valuations are based on assumptions where relatively small adjustments to those assumptions can have a material impact on the asset values.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the instructions provided to the external valuer and review the valuer's skills and expertise to determine whether we can rely on management's expert.</li> <li>Confirm that the basis of valuation for assets valued in year is appropriate based on their usage.</li> <li>Review the reasonableness of assumptions used in the valuation of land and buildings; and the Council's critical assessment of the external valuer's conclusions.</li> <li>Review the reasonableness of assumptions used in both rolling forward the 1 April valuation to the balance sheet date and assessing the value of assets not included in the revaluation exercise.</li> </ul>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movements recognised by the Council.</p>

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Related party transactions</b>  <b>[SR]</b>	<p>There is a risk that related party transaction disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction, resulting in material misstatement. This risk is heightened in 2017/18 due to both changes in councillors following local elections in May 2017 and the operation of This Land Group (formerly Cambridgeshire Housing Investment Company), a wholly owned subsidiary of the Council.</p> <p>Transactions with related parties can be material to the users of accounts for qualitative reasons even if they do not exceed the materiality threshold applied to the financial statements as a whole.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Document the related party transactions identification procedures in place, including review of communication with councillors and senior officers regarding the requirement to declare their interests</li> <li>Discuss with management (and review) councillor and senior management declarations to ensure there are no potential related party transactions which have not been disclosed.</li> </ul>	<p>Companies House data will be used to identify councillor and senior management interests.</p>
<b>Pension liability assumptions</b>  <b>[SR]</b>	<p>The net pension liability comprises the Council's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the consulting actuary report over the competency and experience of the actuary and reasonableness of assumptions used.</li> <li>Review the competence of the management expert (actuary).</li> <li>Obtain assurance over the controls for providing complete and accurate data to the actuary.</li> <li>Agree the disclosures to the information provided by the pension fund actuary.</li> <li>Follow up any points of concern raised by the consulting actuary.</li> </ul>	<p>We will agree disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Cash flow statement [SR]	<p>Previous audits have identified material misstatements in the cash flow statement presented for audit.</p> <p>Preparation of the cash flow statement requires detailed analysis of the movement in a range of account balances. Incorrect analysis of these balances or failure to identify balances which impact on the values in the cash flow statement increases the risk that associated amounts are not accurately recognised.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Determine the steps taken by management to address the causes of the misstatements identified in previous years.</li> <li>Review the consistency of the statement with other areas of the financial statements and other underlying records where relevant.</li> <li>Ensure each line of the cash flow statement complies with detailed guidance contained within the CIPFA Code.</li> </ul>	Not applicable.
Senior officer remuneration [NR]	<p>The prior year audit identified errors in the disclosure of senior officer remuneration, including inconsistencies with the applicable guidance, omission of remunerative benefits required for inclusion and inaccuracy of other remuneration values disclosed.</p> <p>Disclosures relating to senior officer remuneration are considered to be material by nature.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Agree disclosures in the draft financial statements to the requirements of the CIPFA Code.</li> <li>Agree senior officer remuneration to underlying payroll records and evidence from other entities where officers are not on the Council's payroll.</li> </ul>	Payroll evidence from Peterborough City Council, LGSS Law and other entities that employ officers included in the Council's disclosure.
Changes in presentation of the Comprehensive Income and Expenditure Statement [NR]	<p>The Council has made changes to the directorate structure and the services which fall within those directorates. Directorates created during 2017/18 include:</p> <ul style="list-style-type: none"> <li>Place &amp; Economy</li> <li>People &amp; Communities</li> </ul> <p>These changes will require a restatement of the 2016/17 Comprehensive Income &amp; Expenditure Statement (CIES). There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review the restatement prepared to ensure that it is in line with the internal management reporting used for decision making.</li> <li>Check that the mapping of transactions in the restated CIES is consistent with the mapping of 2017/18 transactions under the new directorate structure and that the restatement reconciles to the 2016/17 audited financial statements.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Treatment of revenue expenditure funded from capital under statute (REFCUS) [NR]	<p>The prior year audit identified that REFCUS transactions included non-enhancing capital expenditure on Council assets.</p> <p>REFCUS accounting also led to misstatements in the 2015/16 financial statements.</p>	We will test a sample of REFCUS transactions and confirm that they have been correctly recognised and presented in the CIES.	Not applicable.
Intragroup transactions [NR]	<p>In the prior year, income from local authority maintained schools for services provided by the Council (including cleaning and catering services and financial advisory services) was included within the Council's CIES, as was the related expenditure from the school's perspective. The Code requires intragroup income and expenditure with local authority maintained schools to be excluded from the financial statements.</p> <p>Failure to apply the requirements of the Code may result in misstatements relating to the existence of associated income and expenditure.</p>	We will confirm that the Council's financial statements exclude income and expenditure transactions in respect of services provided by the Council to local authority maintained schools.	Not applicable.
City Deal accounting [NR]	<p>In 2016/17 the Council's accounting treatment for its City Deal grant was adjusted to reflect the absence of any conditions associated with the grant, recognising the full grant as income and a current/non-current debtor for grant not yet received. As required by the Code, the grant should remain in the Capital Grants Unapplied Account until expenditure is incurred, at which point it should transfer to the Capital Adjustment Account.</p> <p>The treatment of the City Deal grant is complex, increasing the risk that in-year transactions are inaccurately recognised or are incorrectly presented in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Confirm that there have been no changes to the terms and conditions associated with the City Deal grant.</li> <li>Review the accounting treatment applied to the grant, including reconciliation of amounts transferred to the Capital Adjustment Account to expenditure incurred on City Deal projects.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Provisions and contingent liabilities associated with the guided busway [NR]	<p>The Council is involved in ongoing litigation with a contractor regarding a dispute over the construction of the Guided Busway. In previous years the Council has disclosed in its contingent liabilities note that it is possible it will incur legal costs as a result.</p> <p>There is a risk that disclosures may not reflect the latest status of the ongoing litigation.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Ascertain the current status of the litigation</li> <li>• Review the Council's disclosure of costs or liabilities related to the litigation and confirm that they are in accordance with the CIPFA Code.</li> </ul>	Not applicable.
This Land Group (formerly Cambridgeshire Housing Investment Company) [NR]	<p>This Land Group has entered into material transactions during the year which may result in a requirement to prepare group accounts. The Council has not previously prepared group accounts. There is a risk that when determining whether or not it should consolidate This Land Group into its accounts, and subsequently preparing group accounts if required, the Council may not comply with the applicable accounting framework.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the Council's rationale on whether or not to prepare group accounts.</li> <li>• If group accounts are prepared, we will review the Council's working papers to ensure that consolidation has been executed in accordance with the CIPFA Code.</li> </ul>	Not applicable.
De-recognition of replaced infrastructure assets [NR]	<p>The Council does not maintain a detailed asset register to support the infrastructure assets balance recognised in the financial statements.</p> <p>There is a risk that information relating to the Council's infrastructure assets is insufficiently detailed, resulting in balances associated with replaced infrastructure assets not being correctly derecognised.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test a sample of infrastructure additions to confirm that the correct accounting treatment has been applied, including de-recognition of assets which have been replaced.</li> </ul>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable resource deployment [SR]	The Council's latest Business Plan 2018-2023 includes a balanced budget for 2018/19 but identifies that the Council needs to make savings of £82.7m over the next 5 years. Whilst the Council has a track record of achieving significant levels of savings, transformation is needed in order to continue to deliver this quantum of savings.	We will review the reasonableness of the assumptions used in the Medium Term Financial Strategy, including the budget re-alignment outcome, and consider the reasonableness of the assumptions applied in the forecasts in respect of cost pressures and government grant reductions.	
	Successful transformation underpins the Council's medium term financial strategy and will require robust financial management arrangements to be in place. We have therefore raised sustainable resource deployment as a significant risk.	We will review the progress being made in respect of the Transformation Programme, including how the programme is being managed in the context of the new arrangements associated with devolution.	
Informed decision making [SR]	The Council's Business Plan includes a number of revenue generating activities. These include creating This Land Group (formerly the Cambridgeshire Housing and Investment Company) and the proposed use of £100m of capital receipts to purchase commercial assets. The Council is seeking innovative ways of generating funds to support service delivery and mitigate the reduction in government funding.	We will review the This Land Group business case and progress to date with schemes that are in the pipeline or have been approved. We will also review the governance and corporate arrangements in place to monitor the company.	
	The Council will need to ensure it has put in place the appropriate governance arrangements and corporate arrangements to comprehensively and effectively plan and successfully deliver the income generating activities. We have therefore raised a significant risk in relation to informed decision making.	We will discuss with management the planned proposals for the £100m spend on commercial assets and conduct a review of relevant detailed business cases.	

# INDEPENDENCE

## INDEPENDENCE

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2018. We have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of non audit services we plan to deliver.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation after 5 and 10 years respectively. The table below sets out the length of involvement of key members of the audit team and the planned year of rotation.

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

## INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	3	2020/21
Barry Pryke - Engagement manager	3	2026/27
Engagement Quality Control Reviewer	3	2022/23



# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 Planned £	2016/17 Actual £
Code audit fee	94,061	94,061
Fees for non audit services - audit related (see below)	TBC	3,650
Fees for non audit services - other	Nil	Nil
<b>TOTAL FEES</b>	<b>TBC</b>	<b>97,711</b>

NON AUDIT SERVICES FEES ANALYSIS	£	£
<b>Non audit services:</b>		
Skills Funding Agency subcontracting grant certification	TBC	3,650
<b>Total</b>	<b>TBC</b>	<b>3,650</b>

The Education and Skills Funding Agency (ESFA) has not yet issued guidance to the Council regarding 2017/18 assurance requirements for the certification of the ESFA subcontracting grant. Once the scope of the assurance requirements has been confirmed, we will agree our fee with management.

Code audit fee invoices have been raised as set out below:

- First instalment £47,030.50 in July 2017
- Second instalment £47,030.50 in January 2018

Following our firm's standard terms of business, full payment is due within 14 days of receipt of invoice. Fee invoices for any other services will be raised as the work is completed.

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Chief Finance Officer. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Accounts Committee.

Fees for other audit related services such as objections, will be raised as the work is completed.

### Our fee is based on the following assumptions

- The complete draft financial statements and supporting working papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.
- Key dates will be met, including receipt of draft accounts, Governance Statement and working papers prior to commencement of the final audit fieldwork.
- We will receive only one draft of the financial statements prior to receiving the final versions for signing.
- Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION


- Materiality is the amount by which misstatement in the financial statements could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The concept of materiality applies not only to monetary misstatements but also to other disclosures in the financial statements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. At the planning stage we set an overall level of materiality for the financial statements as a whole based on our understanding of the elements of the financial statements that are likely to be of greatest significance to users. Lower materiality levels may be set for specific classes of transactions, balances or disclosures where appropriate. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

## REASSESSMENT OF MATERIALITY

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

## UNADJUSTED ERRORS

- We will communicate to you all uncorrected misstatements, including omission, identified during our audit, other than those which we believe are 'clearly trivial'.
- We will request that adjustments be made to correct such errors. However, where you choose not to do so we will request written representations from the Board of Directors confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- Should any misstatements remain uncorrected we will consider the implications for our audit report.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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