

Reading Borough Council

Year ending 31 March 2016

Audit Plan

19 April 2016

Ernst & Young LLP





Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Tel: + 44 118 928 1599
Fax: + 44 118 928 1101
ey.com

Members of the Audit and Governance Committee
Reading Borough Council
Civic Offices
Bridge Street
Reading
RG1 2LU

19 April 2016

Dear Committee Members

Audit Plan

We are pleased to attach our updated Audit Plan which sets out in more detail the revised approach to value for money work and updates our assessment of internal controls.

Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

2015/16 will be our first year as your external auditor. We are currently working through the transitional arrangements with our predecessors, KPMG, including a review of their files. This report therefore summarises our preliminary assessment of the key issues 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 revised plan with you on 19 April 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
Executive Director

*For and behalf of Ernst & Young LLP
Enc*

Contents

1. Overview	1
2. Financial statement risks	2
3. Value for money risks	5
4. Our audit process and strategy.....	6
5. Independence.....	10
Appendix A Fees.....	12
Appendix B UK required communications with those charged with governance	13

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

Context for the audit

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

- ▶ Our audit opinion on whether the financial statements of Reading Borough Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

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

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

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

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

Significant risks (including fraud risks)

Our audit approach

Risk of fraud in revenue and/or expenditure recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Our approach will focus on:

- ▶ Reviewing and testing revenue and expenditure recognition policies;
- ▶ Reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- ▶ Developing a testing strategy to test material revenue and expenditure streams; and
- ▶ Reviewing and testing revenue and expenditure cut-off at the period end date.

Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

Not significant risks

Risk of understatement of Equal Pay provision

The equal pay provision may be understated based on the estimates provided by internal legal advisors.

Our approach will focus on:

- ▶ Obtaining the schedule of equal pay provision, and agree amounts to the general ledger accounts;
- ▶ Reviewing schedule for correctness and completeness, including whether the unequal pay provision is consistent with our understanding of the entity's business, and test recorded amounts; and
- ▶ Enquiring with management around the process controls and policy that were used and implemented regarding the equal pay provision.

Reliance on one contractor to prepare year-end financial information

The risk exists that the reliance on one contractor with no formal contract to prepare financial information could impede the clients' ability to compile the financial statements in a timely manner. As complex spreadsheets form a crucial part of compiling the financial information there is an additional element of risk due to susceptibility to errors, either human or as a result of data corruption. Currently there is no succession or continuity plans in place for this this role.

Our approach will focus on:

- ▶ Reviewing any plans developed by the Council to provide continuity and succession for this work;
- ▶ Obtaining the spreadsheet that forms the basis of the accounts preparation and agreeing amounts to the general ledger accounts;
- ▶ Reviewing the spreadsheet for correctness and completeness, including whether the balances are consistent with our understanding of the entity's business and underlying data and testing recorded amounts.

Valuation of Property Plant and Equipment

The former Council office building is in the process of being demolished. The accounting treatment of the building was queried by the previous auditors last year and was recorded as an uncorrected misstatement in their ISA 260 report. We will review the current valuation treatment to ensure that it is materially correct.

Our approach will focus on:

- ▶ Reviewing the proposed accounting treatment in 2015/16;
- ▶ Reviewing any valuer's report on the building; and
- ▶ Reviewing the disclosure to ensure that it is appropriate.

Valuation of Investment Properties

The Council does not value investment properties on an annual basis as required by the CIPFA Local Government Statement of Accounting Practice.

Our approach will focus on:

- ▶ Reviewing proposed valuation treatment in 2015/16;
- ▶ Reviewing any valuer's report on the properties; and
- ▶ Reviewing disclosures to ensure that they are appropriate.

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 a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

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

.

3. Value for money risks - Economy, efficiency and effectiveness

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

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

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

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

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

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

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

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

We have considered the guidance in the context of our knowledge and understanding of the Council’s circumstances and the risks that it faces. We have identified the following significant risk:

Significant risk	Our audit approach	
Delivering financial resilience		
<p>The Council is facing a challenging financial position and is reporting an overspend in both Adult and Children’s Social Care and is having to plan for significant cuts in spending in future years. The recent announcement by the Government of a reduction in the Revenue Support Grant requires the Council to make further savings. The timing of the announcement in December 2015 means that the Council will revisit its 2016/17 budget and Medium Term Financial Plan. The Council may find it challenging to set a balanced budget.</p>	<p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reviewing the 2015/16 outturn position against budget; ▶ Assessing the robustness of processes for identifying and implementing savings; and ▶ Reviewing revised 2016/17 budgets and the updated Medium Term Financial Plan.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

We issue an audit report that covers:

i Financial statement audit

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

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

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

ii Arrangements for securing economy, efficiency and effectiveness

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

4.2 Audit process overview

Processes

We have completed our assessment of manual internal controls operated by the Council and the reliance we can place on them and have concluded that we will not be able to rely on them for all financial systems. The reason for this is that during the financial year control accounts have not been maintained on a regular basis and these are an important element of internal control which we seek to rely on. Management have agreed to implement improved monitoring of the completion and review of control accounts.

Controls surrounding the accounts that are processed in Academy (Housing Benefits, Council Tax and National Non-Domestic Rates) are good and we will seek to take a controls based approach when testing these accounts. We are currently testing IT and manual controls over the Academy system and if we find them to be working appropriately this will provide us with additional assurance and reduce our level of transaction testing.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

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 will review internal audit plans and the results of their work. We will take into account that could have an impact on the year-end financial statements and our value for money work.

Use of specialists

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	EY valuations team/ Third party specialists
Valuations	EY valuations team/ Third party specialists

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

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

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

4.3 Mandatory audit procedures required by auditing standards and the Code

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

Procedures required by standards:

- ▶ Addressing the risk of fraud and error;
- ▶ Reviewing significant disclosures included in the financial statements;
- ▶ Assessing entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ Assessing auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on, as appropriate, other information published with the financial statements, including the Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Satisfying ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

4.4 Materiality

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

We have determined the proposed overall materiality for the financial statement of the Council is £8,272,000 based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £414,000 to you.

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

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Reading Borough Council is £108,938 with an estimated fee of £20,187 for the certification of the housing benefit subsidy claim.

4.6 Your audit team

The engagement team is led by Maria Grindley, who has significant experience of auditing local government clients. They are supported by Alan Witty as senior manager who is responsible for the day-to-day direction of audit work and is the key point of contact for the Corporate Finance Business Partner.

4.7 Timetable of communication, deliverables and insights

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

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

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

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning	April 2015	April 2015	Audit Fee letter
Risk assessment and setting of scopes	December 2015	January 2016	Audit Plan
Testing routine processes and controls	February-March 2016	April 2016	Revised Plan
Year-end audit	July-August 2016		
Completion of audit	August 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report including our opinion on the financial statements; and, overall value for money conclusion. Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	By 31 October 2016	December 2016	Annual Audit Letter
Reporting on Housing Benefit	November 2016	January 2017	Annual Grant Claim Report

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

5. Independence

5.1 Introduction

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

Required communications

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

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with 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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

There are no other threats at the date of this report

Overall Assessment

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

5.3 Other required communications

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

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

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

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 [current year] £	Outturn fee by KPMG 2014/15 [prior year] £	Explanation
Opinion Audit and VFM Conclusion	£108,938	£108,938	£145,250*	
Total Audit Fee – Code work	£108,938	£108,938	£145,250*	
Certification of claims and returns ¹	£20,187	£20,187	20,130*	
Non-audit work	0	0	0	

All fees exclude VAT.

* These fees are included for information, they are not EY fees.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ The NAO making no significant changes to the final value for money guidance on which our conclusion will be based;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

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

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit and Governance Committee. 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>	<p>▶ Audit Plan</p>
<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 audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>▶ Report to those charged with governance</p>
<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 	<p>▶ Report to those charged with governance</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>▶ Report to those charged with governance</p>
<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 	<p>▶ Report to those charged with governance</p>

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 	
<p>External confirmations</p> <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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <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 the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Group audits [if relevant]</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components 	<ul style="list-style-type: none"> ▶ Report to those charged with governance

Required communication	Reference
<ul style="list-style-type: none"> ▶ 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 	
Opening Balances	▶ Report to those charged with governance
<ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	
Certification work	▶ Annual Report to those charged with governance summarising grant certification
<ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com