

Hertfordshire County Council

Year ending 31 March 2016

Audit Plan

29 February 2016

Ernst & Young LLP



EY

Building a better
working world

Audit Committee
Hertfordshire County Council
County Hall
Pegs Lane
Hertford
SG13 8DQ

29 February 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015-16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this Audit Plan with you on 23 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Neil Harris
For and behalf of Ernst & Young LLP
Enc

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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 \(www.psa.co.uk\)](http://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 Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Overview

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

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

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

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

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

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

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

2. Financial statement risks

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

Significant risks (including fraud risks)	Our audit approach
Property Asset Valuation	
<p>Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Assessing and placing reliance on property valuation specialists commissioned by the Council and the auditor. ▶ Assessing and using an independent valuer's market report to assess and challenge the assumptions and judgements used by the Council's external valuer in valuing the Council's property. ▶ Testing the accounting entries made for revaluations. ▶ Testing the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.
Better Care Fund	
<p>The Better Care Fund (BCF) is a major policy initiative between local authorities, CCGs and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. The intention is that partners use the BCF to jointly commission health and social care services at a local level.</p> <p>From 1 April 2015 BCF has been set up as a pooled budget between the Council and local Clinical Commissioning Groups (CCG). The pool is managed by the Council and has total funding of £230 million in 2015-16. The Council has contributed £110 million.</p> <p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding and inconsistencies between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the BCF.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Examining relevant S75 agreements entered into by the Council. ▶ Reviewing proposed accounting treatments for the Better Care Fund and the disclosures made under relevant accounting standards. As part of this, we will consider what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement. ▶ Performing testing to gain assurance that the Council has appropriately accounted for its share of the pool. <p>We will keep our approach under review, pending any further guidance from CIPFA, the National Audit Office and PSAA.</p>
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date
Risk of management override	
<p>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.</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. ▶ Evaluating the business rationale for significant unusual transactions.

Other financial statement risks

Group accounts

The Council set up two companies in September 2013:

- ▶ Hertfordshire Catering Ltd, which is a wholly-owned subsidiary
- ▶ Herts for Learning Ltd, of which 20% is owned by the Council and the remainder by schools.

The Council continues to assess these interests as quantitatively and qualitatively material to the group and therefore the Council will continue to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

There is a risk that the group financial statements do not meet the requirements as defined by the Code.

We will review and test whether the Council has:

- ▶ Identified all potential group entities against accounting standards IFRS 10 and 11.
- ▶ Adopted and correctly applied accounting policies that comply with the requirements of the Code.
- ▶ Consolidated the companies' accounts appropriately into the group accounts.
- ▶ Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code.

We are responsible for the direction, supervision and performance of the group audit. We will therefore instruct the auditor of the companies as part of our audit procedures.

Further details on the work we will carry out in respect of the group accounts audit is set out in Appendix C.

Highways expenditure

Internal Audit issued a limited assurance opinion in 2014 on highways contract management, indicating that there were significant weaknesses in key controls. The report noted that weaknesses had been identified in areas of invoicing, reconciliations, budget monitoring and coding of expenditure. Progress has been made in these areas, but processes are still developing and are not yet embedded.

We carried out specific work to address this risk in 2014-15 and noted that there was uncertainty about the final amount which would be paid to the contractor. A final settlement is negotiated with the contractor post year end.

As a result there remains a risk that highways expenditure, both revenue and capital, may be misstated, as the final settlement position for 2015-16 will be estimated at year end.

Our approach will focus on:

- ▶ Reviewing and testing the reconciliation of payments made to claims submitted by the contractor to provide assurance across the full year's total expenditure.
- ▶ Reviewing of an overall reconciliation of the amount processed as highways capital expenditure on infrastructure.
- ▶ Reviewing the estimates and assumptions made as part of closing the 2015-16 accounts about the final expenditure position which will be agreed with the contractor.
- ▶ Considering the outcome of the negotiations on 2014-15 expenditure and whether a final settlement has been agreed and reflected in the 2015-16 accounts.

Pensions Ombudsman case GAD v Milne

In May 2015, the Pensions Ombudsman published a decision which affected fire-fighters who retired between 2001 and 2006. The Ombudsman found that Government Actuary Department (GAD) had not updated the commutation factors which were used to calculate lump sums due on retirement and that fire-fighters who retired in this period were disadvantaged as a result. As a result of this decision these retired fire-fighters were to be compensated.

In 2014-15 this was disclosed as a post balance sheet event, but no amendments were made to the accounts.

The Department for Communities and Local Government (DCLG) expects these payments to be calculated and paid to affected pensioners by April 2016 and has agreed to fund these payments. The exact method of funding and resulting accounting for these payments is not fully determined, in particular whether they will need to be accounted for via the fire-fighters' pension fund.

Such payments would be expected to be material to the fire-fighters' pension fund.

Our approach will focus on:

- ▶ Reviewing the progress made in calculating and paying the compensation due.
- ▶ Testing a sample of compensation payments.
- ▶ Performing testing to gain assurance that the Council has appropriately accounted for these payments and the expected DCLG funding.

2.1 Responsibilities in respect of fraud and error

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

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

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

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

3. Value for money risks

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

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the Council’s 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.

Our initial risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion. We will revisit this assessment throughout the audit process.

Significant value for money risks

Our audit approach

Financial pressures

The Council’s finances continue to be under significant pressure in the medium term. When setting its 2015-16 budget in early 2015, the Council expected to make savings of £120 million per year by 2017-18. At the time the 2015-16 budget and Integrated Plan was finalised, £56.4 million of that amount was still to be found.

In December 2015 the provisional local government finance settlement was announced which included a significant reduction in government funding beyond that anticipated and already built into the Integrated Plan. Additional transitional grant has since been announced.

The Council is currently developing budget proposals to 2019-20. These show a gap of savings still to be found of £38.4 million in 2017-18 rising to £71.4 million in 2019-20.

The achievement of the Council’s Integrated Plans to date has been good. However, the Council has to continue to deliver significant savings year on year in order to bridge the gap and balance its budget.

Our approach will continue to focus on:

- ▶ Review of the Council’s Integrated Planning Process for financial planning and business transformation.
- ▶ The robustness of budget assumptions.
- ▶ The effective use of scenario planning to assist the budget setting process.
- ▶ The Council’s approach to prioritising resources.
- ▶ Achievement of the 2015-16 budget, including delivery of savings.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;
- ▶ Give a separate opinion on the part of the Council's financial statements that relates to the accounts of the local government pension fund.

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

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

4.2 Audit process overview

Our audit approach is to assess the Council's level of internal controls and to place reliance upon those controls where our assessment allows.

In doing so, we will look to rely upon the work of Internal Audit as much as possible whilst complying with the requirements of auditing standards. We have discussed our plans with Internal Audit, establishing which financial systems they are reviewing this year and have built this in to our work plan.

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, relying on the work of Internal Audit:

- ▶ Accounts receivable
- ▶ Accounts payable
- ▶ Cash processing
- ▶ Payroll

Other material items of account will be tested substantively.

Early substantive testing

Building on the early testing trialled in last year's audit we intend to undertake detailed testing of transactions in the period April to December 2015.

We will focus this testing on income and expenditure in the following areas:

- ▶ Social care income and expenditure
- ▶ Hertfordshire Business Services income and expenditure
- ▶ Waste management expenditure

The balance sheet will be tested at year end.

Analytics

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

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

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit reporting, where we raise issues that could have an impact on the year-end financial statements.

We will seek to place reliance on the work of Internal Audit wherever possible in line with auditing standards.

Use of specialists

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

Area	Specialists
Pensions	Hymans Robertson (the Council's actuary) PWC review of the work of local government actuaries (including Hymans Robertson), commissioned by the NAO EY pensions team review of the PWC report
Property valuation	Lambert Smith Hampton (the Council's property valuers) Gerald Eve report on property market conditions (independent valuers) commissioned by the NAO EY property team review of the Gerald Eve report
Property componentisation	Head of Building Management
Loan fair values	Arlingclose (the Council's treasury advisors)

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

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

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source 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 (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

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

4.4 Materiality

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

We have determined that overall materiality for the Council's single entity financial statements is £17.6 million based on 1% of gross expenditure. We will communicate uncorrected audit misstatements greater than £880,000 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 How materiality is applied to the component locations

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group. Based on the Group planning materiality of £17.6 million, we expect a component materiality of £1.9 million.

4.6 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of the Council is £142,067.

4.7 Your audit team

The engagement team is led by Neil Harris who has significant experience of local government external audit. Neil is supported by Penny Irwin who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

4.8 Timetable of communication, deliverables and insights

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

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

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	December 2015		
Risk assessment and setting of scopes	December 2015-February 2016	March 2016	Audit Plan
Testing routine processes and controls	March-April 2016	June 2016	
Early substantive testing			
Year-end audit	June-August 2016		
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and, overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	November 2016	Annual Audit Letter

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

5. Independence

5.1 Introduction

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

Required communications	
Planning stage	Final stage
<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 Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

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

We carried out non-audit work on the certification of the Council's 2014-15 teachers' pensions return as a reporting accountant in November 2015. The fee charged was £13,000. Therefore the ratio of non-audit fees to audit fees for 2014-15 was approximately 1:14. No additional safeguards were required. Certification arrangements have not yet been made for the 2015-16 return.

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.

The 2015-16 audit year is the ninth year that Penny Irwin has been the engagement manager. The PSAA's policy is that the audit manager at an audited body should be changed at least once every ten years. Penny is therefore within the permitted timeframe and we conclude that there are no considerations that compromise, or could be perceived to compromise, Penny's independence or objectivity. Penny will rotate off this engagement at the conclusion of the audit.

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 Neil Harris, the audit engagement director and the audit engagement team have not been compromised.

5.3 Other required communications

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

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

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

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	142,067	142,067	189,423	
Total Audit Fee – Code work	142,067	142,067	189,423	
Non-audit work	TBC	N/A	13,000	Fee for work on the teachers' pensions return

All fees exclude VAT.

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;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council and response to our queries is within agreed timeframes; and
- ▶ The Council has an effective control environment.

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

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

Appendix B UK required communications with those charged with governance

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

Required communication	Reference
<p>Planning and audit approach 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 audit 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 the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties 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 ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<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 	▶ 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 	▶ Report to those charged with governance

Required communication	Reference
<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</p> <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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance

Appendix C Detailed scopes

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

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

- ▶ **Full scope:** locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ **Review Scope:** review scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.
- ▶ **Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Our audit approach is risk-based, and we have assessed the risks presented by the two component companies within the Hertfordshire County Council group. Both Hertfordshire Catering Limited and Herts for Learning Limited have been assessed as review scope components, with our work being based on a desk top review consisting of enquiries of management and analytical review as appropriate.

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

- ▶ For both component companies we expect to review the final audited financial statements and the auditor's report on the results of their audit when performing our tests of consolidation and analytical review of the amounts feeding into the group statements.

Detailed scopes

EY | Assurance | Tax | Transactions | Advisory

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