

Law and Governance

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24 February 2014

Dear Councillors

AUDIT AND GOVERNANCE COMMITTEE - THURSDAY 27 FEBRUARY 2014

Attached are papers for the above meeting which were not available when the main agenda was published.

The papers relate to agenda item 3 – External Audit Progress Report 2013/14 – Ernst and Young.

Please bring these with you to the meeting

Yours sincerely

Mathew Metcalfe
Democratic and Electoral Services Officer



INVESTORS
IN PEOPLE



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Oxford City Council
Year ending 31 March 2014

Audit Plan

27 February 2014

Audit & Governance Committee
Oxford City Council
Town Hall Offices
Oxford
OX1 1BX

27 February 2014

Dear Councillors

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2013-14 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Oxford City Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 27 February 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

Contents

1. Overview	2
2. Financial statement risks	4
3. Economy, efficiency and effectiveness	6
4. Certification work.....	7
5. Our audit process and strategy.....	8
6. Independence.....	12
Appendix A Fees	15
Appendix B UK required communications with those charged with governance	16
Appendix C Detailed scopes	18

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended
- ▶ A conclusion on the arrangements to secure economy, efficiency and effectiveness – i.e., the value for money conclusion

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

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

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

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

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

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

As part of our planning we identified:

- ▶ Management override as a significant risk based on the requirements of auditing standards
- ▶ Implementation of Agresso fixed asset module - the impact on year-end close down and the accuracy of the transactions drawn from the module and reported in the financial statements
- ▶ Transfer of Housing Revenue Account balances and assets to the General Fund – legality and accuracy of accounting for the transfers.

We also identified the following key area of attention for our value for money conclusion work:

- ▶ From April 2013, there will be changes to the arrangements for both Local Council Tax Support and business rates. These changes represent a significant change for the Council and bring both financial and reputational risks.

1.1.1 Financial statement audit

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

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

We seek to place reliance on the work of internal audit wherever possible. We have already liaised with internal audit and have commenced our review and re-performance of their work.

The key members of our audit team are Mick West, Director; Alan Witty, Manager; and Adrian Balmer, Team Leader

1.1.2 Value for money conclusion

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

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing the Council, identified through our knowledge of the entity's operations and discussion with members and officers. A significant risk is an identified assessed risk of material misstatement that, in an auditor's judgement, requires special audit consideration.

Significant risks (including fraud risks)

Our audit approach

Risk of management override

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

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.
- ▶ Review accounting estimates for biases and evaluate whether the circumstances producing the bias
- ▶ Evaluating the business rationale for significant unusual transactions.

Other financial statement risks

Our audit approach

Implementation of Agresso fixed asset module

The implementation of the fixed asset module is important

Our approach will focus on:

- ▶ Understanding the arrangements for implementing the new system and how they are designed to address the risks
- ▶ Reviewing implementation including work by Internal Audit
- ▶ Testing roll forward of balances into the new module to ensure completeness and accuracy
- ▶ Testing the output from the system that underpins material transactions in the financial statements

Transfer of Housing Revenue Account balances and assets to the General Fund

The transactions are significant and high value. It is important that to ensure they are lawful and are recorded correctly within the financial statement

Our approach will focus on:

- ▶ Understanding the arrangements for addressing the legality of the transfers
- ▶ Ensuring that the criteria to permit the transfer have been met
- ▶ Understanding the arrangements for ensuring the transfers have been accounted for correctly
- ▶ Testing the accounting entries
- ▶ Reviewing the impact of any Government guidance on such transfers

Respective responsibilities in relation to fraud and error

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

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether 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.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, efficiency and effectiveness

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

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

Our initial work includes:

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

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

Other risks	Our audit approach	
Changes to arrangements for council tax support and business rates		
<p>From April 2013, there will be changes to the arrangements for both Local Council Tax Support and business rates. These changes represent a significant change for the Council and bring both financial and reputational risks.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ How the Council has managed these changes. ▶ How the Council has assessed the likely impact of the changes on its financial position and built these into its future financial projections and budget.

4. Certification work

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

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

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

We are planning to carry out certification work for the:

- ▶ Housing benefit scheme – based on previous experience we expect to carry out extended testing known as 40+ testing on up to 6 areas of the claim

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

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

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

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

5. Our audit process and strategy

5.1 Objective and scope of our audit

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

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

We issue a two-part audit report covering both of these objectives.

5.1.1 Financial statement audit

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

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

5.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

5.2 Audit process overview

Our audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Review and re-performance of the work of your internal auditors
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations
- ▶ Substantive tests of detail of transactions and amounts

Processes

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

- ▶ Accounts receivable
- ▶ Procure to pay
- ▶ Council tax
- ▶ Cash processing and bank
- ▶ Housing and council tax benefits
- ▶ Payroll
- ▶ Car park income

We propose to take a substantive approach to the following areas on the grounds of efficiency: housing rents, business rates, pensions and journals.

5.2.1 Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular for payroll, cash payments and receipts and 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 & Governance Committee.

5.2.2 Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

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

5.2.3 Use of experts

We will use specialist EY resources as necessary to help us to form a view on judgments made in the financial statements.

5.2.4 Other procedures

We have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline as follows the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error
- ▶ Significant disclosures included in the financial statements
- ▶ Entity-wide controls

- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- ▶ Auditor independence

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements

5.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

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

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". We intend to treat misstatements less than £200,000 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

5.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £114,000, together with an estimated fee of £39,900 for the certification of claims and returns.

5.5 Your audit team

The engagement team is led by Mick West, who has significant experience of local government audits. Mick is supported by Alan Witty who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

5.6 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 conclusion work and the Whole of Government Accounts; and the deliverables we have agreed to provide to you through the Audit & Governance Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

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

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

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Initial risk based planning	January/February	February	Audit plan
Testing of routine processes and controls	February/April	April	Interim work - we will provide a summary of our work in our progress report
Value for money conclusion	February/April	April	Interim work - we will provide a summary of our work in our progress report
Year-end audit including WGA	July – September	Audit & Governance Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and value for money conclusion). Audit completion certificate
Reporting	October		Annual audit letter
Grant claims	January 2015		Report on the audit of grant claims

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

6. Independence

6.1 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 upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review ▶ The overall assessment of threats and safeguards ▶ Information about the general policies and process within EY to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed ▶ Details of non-audit services provided and the fees charged in relation thereto ▶ Written confirmation that we are independent ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy ▶ An opportunity to discuss auditor independence issues

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

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

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

6.2 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 the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we 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 you. At the time of writing, there are no long-outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

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

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

Management threats

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

There are no management threats at the date of this report

Other threats

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

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

Overall Assessment

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

6.3 Other required communications

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

[UK 2013 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14	Actual Fee 2012-13	Explanation of variance
	£'000	£'000	
Total Audit Fee – Code work	114,000	114,000	
Certification of claims and returns*	39,900	36,850	Fee set by Audit Commission based on 2011/12 grant claim fee.
Non-audit work	0	0	

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

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

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We are able to rely on the work of internal audit as originally planned
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year
- ▶ No significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based
- ▶ Our accounts opinion and use of value for money conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body and audit queries addressed promptly
- ▶ There is 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 you 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 & Governance Committee of audited clients. These are detailed here.

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit plan
Significant findings from the audit <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 ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Any other matters if significant to the oversight of the financial reporting process 	Report to those charged with governance
Misstatements <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 where they are significant 	Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit & Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the Council's related parties, including where applicable: <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
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal to allow us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings on non-compliance where material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit & Governance Committee into any possible instances of non-compliance with laws and regulations they know about, where they may have a material effect on the financial statements 	Report to those charged with governance
Independence Communication of all significant facts and matters bearing on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 	Audit plan Report to those charged with governance
Going concern	Report to those charged with

Required communication	Reference
<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 	governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Group audits	Audit Plan
<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 ▶ Any 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 	
Certification work on grants	Annual certification report to those charged with governance
<ul style="list-style-type: none"> ▶ Summary of certification work and findings 	
Fee Information	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit plan</p> <p>Report to those charged with governance and annual audit letter if considered necessary</p>

Appendix C Detailed scopes

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

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

- ▶ Full scope: 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 Ernst & Young audit team for purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support 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 Ernst & Young, Reading audit team.
- ▶ Limited scope: limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

Once we have concluded the initial planning discussions with the group auditors of Barton Oxford LLP, we will issue Group Audit Instructions to ensure the efficient co-ordination of the audit across the group and to confirm which of these approaches we will take. We plan to issue these instructions by the end of March 2014.

UK required communications with those charged with governance

Ernst & Young LLP

Assurance | Tax | Transaction | Advisory

www.ey.com/uk

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

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