

<b>TITLE</b>	<b>Ernst &amp; Young External Audit Annual Audit Plan 2012/13</b>
<b>FOR CONSIDERATION BY</b>	Audit Committee on 16 July 2013
<b>WARD</b>	None Specific
<b>STRATEGIC DIRECTOR</b>	Julie Holland, Interim Head of Business Assurance and Democratic Services

**OUTCOME / BENEFITS TO THE COMMUNITY**

The plan details the external audit work Ernst & Young proposes to undertake for the audit of financial statements for 2012/13. It also outlines the focus of Ernst & Young's work that needs to be carried out to enable a Value for Money Conclusion to be reached.

The work of Ernst & Young provides external validation of the Council's financial statements and Value for Money ensuring they provide a fair and accurate representation to stakeholders, including the Audit Committee.

**RECOMMENDATION**

The Audit Committee is asked to approve the Ernst & Young External Audit Plan for 2012/13.

**SUMMARY OF REPORT**

The External Audit Plan provides information to the Audit Committee on the responsibilities of Ernst & Young, the audit approach they intend to adopt, their testing strategy and a timetable of their work and reporting deadlines.

**FINANCIAL IMPLICATIONS OF THE RECOMMENDATION**

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

**Other financial information relevant to the Recommendation/Decision**

N/A

<b>Cross-Council Implications</b> (how does this decision impact on other Council services and priorities?)
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Not applicable.
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<b>List of Background Papers</b>
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Accounts and Audit Regulations 2011
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<b>Contact</b> Julie Holland
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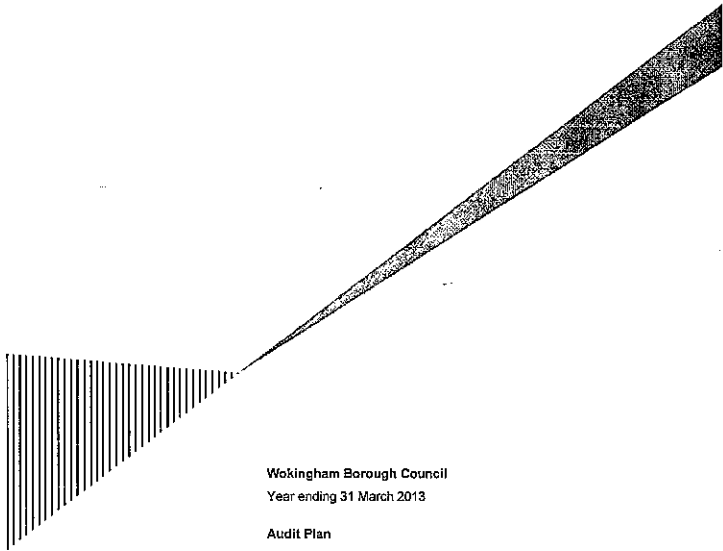
<b>Service Business Assurance and Democratic Services</b>
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<b>Date</b> 4 July 2013
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<b>Version No.</b> V1
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Wokingham Borough Council  
Year ending 31 March 2013

**Audit Plan**

June 2013

Members of the Audit Committee  
Wokingham Borough Council  
Shute End  
Wokingham  
Berkshire  
RG40 1BN

16 July 2013

Dear Members

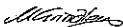
**Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide you with a basis to review our proposed audit approach and the scope of our 2012-13 audit.

Our plan has been prepared 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.

We welcome the opportunity to discuss this report with you on 16 July 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Maria Grindley, Director  
For and behalf of Ernst & Young LLP  
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# 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 of Wokingham Borough Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and,
- ▶ A statutory 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 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; and,
- ▶ Management's views on all of the above.

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

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

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks. The grid below shows the overall assessment of these risks in terms of their likelihood of occurrence in 2012/13 as well as the perceived magnitude of the risk to our opinion or value for money conclusion.

We have identified one significant risk to our audit opinion:

- ▶ Group account preparation – the Council has three subsidiaries which will require consolidation into your group accounts for 2012-13.

We have also identified three other risks that are sufficiently important that we are reporting these to you here:

## Financial statements

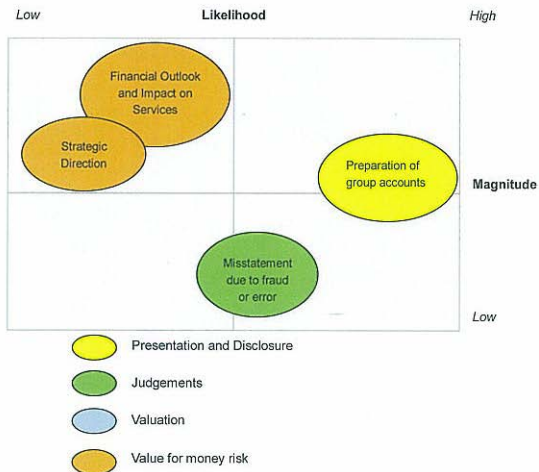
- ▶ Misstatement due to fraud and error - this is an inherent risk due to the nature of local authority finances and increasing pressures on management to achieve financial targets.

## Value for Money Conclusion

- ▶ Financial Outlook and impact on services – The Council is under continuing pressure to deliver significant savings, balancing available resources against service outcomes through a major new service review process.

- Strategic Direction - the Council has recently refreshed its corporate vision, values, aims and objectives. This should help the Council focus on what are, and are not service priorities and on measuring what matters to the Council, its Councillors, local businesses and residents.

We will provide an update to the Committee on the results of our work in these areas in our report to those charged with governance in September 2013.



### Our process and strategy

#### Financial Statements Audit

We develop our risk assessment and planned audit procedures to determine whether your accounts are free from material error. For this, we have defined materiality from the perspective of users of your financial statements and will consider against this benchmark any individual and aggregate errors that may be in your accounting statements.

We will also seek to take assurance from the operation of the Council's control environment, the work of Internal Audit and the operation of controls established within your financial systems. We have already held a number of meetings with your Internal Audit team and we have a clear understanding of their planned work and where we will be seeking to rely on it. Our initial assessment indicates we will be able to place reliance on Internal Audit's work and should this not prove to be so, we will update you as needed.

Outside of this general framework, the team involved in the audit is set out in section 4.5 and there are no other significant changes to the scope of our audit of your financial statements that we need to tell you about.

▶ Arrangements for securing Economy, Efficiency and Effectiveness (VFM conclusion)

We adopt an integrated audit approach to our VFM conclusion such that 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.

Significant risks (including fraud risks)	Our audit approach
<b>Preparation of Group Accounts</b>	

Wokingham Borough Council is a parent of a the following companies:

- ▶ Optalis Ltd;
- ▶ Wokingham Housing Ltd;
- ▶ Wokingham Enterprises Ltd.

We understand Wokingham Enterprises Limited will become dormant in 2013-14 and this may create significant asset transfers and the recognition of residual liabilities in Wokingham's single entity statements.

Wokingham is proposing to include pre-transfer accrued pension liabilities for Optalis' staff in its single entity financial statements from 2012-13.

As the Council's subsidiaries prepare accounts under either UKGAAP or reporting standards for small entities (FRSSE), their financial statements will need restating to IFRS compliance within the Council's group accounts.

Our approach will focus on:

- ▶ Working with Hazlewoods LLP, as the appointed auditor of your subsidiaries, to maximise the assurance taken for our audit of your group financial statements;
- ▶ Verifying IAS19 disclosures in your accounts for Optalis Ltd; and
- ▶ Reviewing any necessary adjustments made as part of your group accounting processes to restate UK GAAP accounts to IFRS compliance.

### Risk of misstatement due to fraud and error

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.

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### 3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Wokingham Borough Council; and
2. Whether there are proper arrangements in place at Wokingham Borough Council to secure economy, efficiency and effectiveness in the use of resources.

We have identified the following significant risks to our VFM conclusion for 2012-13. Outside of these specific areas, we will undertake other work to confirm and update our knowledge of your arrangements as required.

Significant Risks	Impacts arrangements for securing:	Our audit approach
<b>Financial Outlook and impact on Council services</b>		
<p>A reduction in funding for local government of around 8.5 per cent was announced in the Autumn Statement 2012.</p> <p>National RSG has provisionally been set at £12.6 billion, equivalent to a 17 per cent reduction on the previous year. Spending power across the sector is expected to fall by a further 3.4 per cent and you estimate £5m to £7m additional savings will be needed each year over the course of the spending review.</p> <p>Although the Council's current financial position is healthy, managing this financial outlook will continue to be challenging.</p>	<p>Financial Resilience and Use of Resources</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Discussions with key officers and members as appropriate;</li> <li>▶ Reviewing the Council's medium term financial strategy, including plans to finance your strategic development locations and other key capital projects;</li> <li>▶ The actions already underway to reduce costs and reshape services, including your new thematic review programme.</li> </ul>
<b>Strategic direction</b>		
<p>The Council has recently completed a refresh of its corporate vision, values, aims and objectives.</p> <p>Completing this process will help the Council be clear about what are, and are not service priorities. It should focus corporate and service performance monitoring on measuring what matters to the Council, its Councillors, local businesses and residents.</p>	<p>Use of resources</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Discussions with key officers and members as appropriate;</li> <li>▶ How the Council is measuring, or plans to measure the impact of corporate and service reviews; and,</li> <li>▶ How the Council is setting bespoke performance targets and indicators and measuring progress against key priorities.</li> </ul>

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

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

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

#### i) Financial Statement Audit

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

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

#### ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's 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; and
- ▶ 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.

### 4.2 Audit process overview

#### 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, both manual and IT. We have identified separate below those processes where we hope to place at least partial reliance on the work on Internal Audit.

We will test:

- General financial statement closure processes

We will work with Internal Audit to test:

- Accounts Receivable
- Accounts payable (Creditors)

- Treasury Management
- Property, Plant and Equipment
- Business Rates
- Cash receipting
- Housing Benefits
- Payroll
- Council Tax

### **Analytics**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payables, receivables 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.

Where necessary, 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 Resources Committee.

### **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.

### **Use of experts**

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements. In particular, we will use our specialists to support our review of the IAS19 pension liability projections prepared by Barnett Waddingham on behalf of the county pension fund.

We have informed your internal valuer that we will be seeking to place reliance on his work to support property, plant and equipment values in your accounts.

### **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; and
- ▶ Auditor independence.

### **Procedures required by the Code of Audit Practice (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.

### 4.3 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". All uncorrected misstatements found above this amount will be presented to you in our year-end report.

### 4.4 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 fee for the audit of the Council is £139,752.

The Audit Commission has also set a composite indicative fee for 2012/13 certification work at the Council of £9,900. This covers our work to certify any claims and returns required by Central Government or other bodies.

As it is based on the work done in 2011-12, it is not necessarily representative of either the number of claims or amount of work required to certify claims and returns in 2012-13. We will update our assessment of the adequacy of this fee as we progress and will discuss any change necessary to this fee with the Council at the earliest opportunity.

### 4.5 Your audit team

The engagement team is led by Maria Grindley, who has significant experience of both the Local Government sector and Unitary Councils. She is supported by Mark Callow who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

### 4.6 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 work and the whole of government accounts; and the deliverables we have agreed to provide to you through the committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Committee in September 2013. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chairman 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 Committee	Deliverables
High level planning:	March 2012	Presented 6 February 2013	Audit Fee letter
Risk assessment and setting of scopes	Mar-Jun 2013	16 July 2013	Audit Plan
Testing of routine processes and controls	July 2013		Possible report to those charged with governance subject to assessment of findings
Year-end audit	July – August 2013		
		September 2013	Report to those charged with governance
			Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate (subject to completion of work on Whole of Government accounts)
	October 2013	TBA	Management 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 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"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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

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

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



## 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 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 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 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 Maria Grindley, your audit engagement director and the audit engagement team have not been compromised.

### 5.3 Other required communications

Ernst & Young (EY) has policies and procedures that instill 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 2012 Transparency Report](#)

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £'000	Actual Fee 2011/12 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>139,752</b>	<b>232,900</b>	National scale fee reductions
Certification of claims and returns <sup>a</sup>	9,900	15,173	National scale fee reductions
<b>Non-audit work</b>			
Central Berkshire Waste PFI - Wokingham Borough Council.	24,000 (£72,000 in total for the 3 Councils)	-	Wokingham, Bracknell Forest & Reading Councils have asked us to provide services which include financial analysis in respect of its on-going discussions on with FCC Environment (previously named Waste Recycling Group)

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We are able to place reliance, as planned, on the work of Internal Audit;
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year (where we have prior year experience);
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ Our accounts opinion and use of resources conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ An effective control environment continues to operate within the Council.

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.

<sup>a</sup>Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

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

Required communication	Reference
<b>Planning and audit approach</b>	Audit Plan
Communication of the planned scope and timing of the audit including any limitations.	
<b>Significant findings from the audit</b>	Report to Those Charged with Governance
<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	
<b>Misstatements</b>	Report to Those Charged with Governance
<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	
<b>Fraud</b>	
<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Letter sent to Those Charged with Governance – February 2013 and Report to Those Charged with Governance
<b>Related parties</b>	
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Report to Those Charged with Governance
<ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	
<b>External confirmations</b>	Report to Those Charged with Governance
<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	
<b>Consideration of laws and regulations</b>	
<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial</li> </ul>	Letter sent to Those Charged with Governance – February 2013 and

Required communication	Reference
statements and that the audit committee may be aware of	Report to Those Charged with Governance
<b>Independence</b>	
Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	and
<ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> </ul>	Report to Those Charged with Governance
▶ Information about the general policies and process within the firm to maintain objectivity and Independence	
For listed companies, communication of minimum requirements as detailed in the ethical standards:	
▶ Relationships between Ernst & Young, the audited body and senior management	
▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence	
▶ Related safeguards	
▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	
▶ A statement of compliance with the ethical standards	
▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
<b>Going concern</b>	Report to Those Charged with Governance
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	
▶ 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	
<b>Significant deficiencies in internal controls identified during the audit</b>	Report to Those Charged with Governance
<b>Certification work</b>	
▶ Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Management Letter if considered necessary
<b>Fee Information</b>	
▶ Breakdown of fee information at the agreement of the initial audit plan	Audit Plan
▶ Breakdown of fee information at the completion of the audit	Report to those charged with governance and Management Letter if considered necessary

## 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 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.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk based, and therefore the data below on coverage of gross income and net expenditure (before elimination of intercompany transactions) is provided for your information only.

Group audit scope	Number of locations
Full	3
Specific	0
On site limited	0
Off site limited (desktop)	0

The three locations included as full scope reviews relate to Wokingham Housing Limited (WHL), Wokingham Enterprise Limited (WEL) and Optalis Limited.

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:

Location name	
Wokingham Housing Limited (WHL) – Limited scope location	We will review the final audited financial statements of WHL, and the auditor's board report when performing our tests of consolidation and analytical review of the amounts feeding into the group statements. We have written to the auditor of WHL (Hazlewoods) advising them of our intention to consider their work and have provided group instructions for them to complete and return to ourselves as principal auditor of the group.
Wokingham Enterprise Limited (WEL) – Limited scope location	We will review the final audited financial statements of WEL, and the auditor's board report when performing our tests of consolidation and analytical review of the amounts feeding into the group statements. We have written to the auditor of WHL (Hazlewoods) advising them of our intention to consider their work and have provided group instructions for them to complete and return to ourselves as principal auditor of the group.
Optalis Limited – Limited scope location	We will review the final audited financial statements of Optalis Limited, and the auditor's board report when performing our tests of consolidation and analytical review of the amounts feeding into the group statements. We have written to the auditor of WHL (Hazlewoods) advising them of our intention to consider their work and have provided group instructions for them to complete and return to ourselves as principal auditor of the group.

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