City of London Corporation – City Fund

Planning Report to the Audit and Risk Management Committee

Year ending 31 March 2015 for the meeting on 24 February 2015

12 February 2015

Contents

I am pleased to present this planning report for the 2014/15 audit of the City Fund of the City of London Corporation. The report sets out our audit approach and the more significant areas where we will focus our attention this year.

(Heather Bygrave, Audit Partner)

Executive summary

Executive summary

There are no significant changes to our approach or areas of audit focus

Key developments in your business

- City Fund net revenue expenditure was expected at 31 December 2014 to be £2.0m under budget for the year ending 31 March 2015. City Police are currently forecasting an overspend due to additional investments in its transformation projects.
- The City's analysis of the 2015/16 local government finance settlement suggests a year on year reduction in core funding of 16% for local authority services and 5.1% for Police. A programme of service based reviews, which is ongoing, has made progress in addressing the future spending gap created by the settlement. Further work is neeed to close the current funding gap for City Police.
- Council Tax and business rates collection was brought back fully in house from 6 October 2014.
- The Oracle R12 upgrade programme is scheduled for implementation in February 2015.

Key measures from the FY15 Budget (original)

Gross expenditure - £364m (last year - £326m)

Amount to be met by government grants and taxpayers - £105m (last year - £111m)

City Fund and Earmarked revenue reserves at 1 April 2014 - £122m

Contribution to City Fund - £6m (last year £6m) (before revenue contribution to finance capital expenditure)

Estimated materiality

Overall - £4.5m (prior year £4.5m)

Housing Revenue Account - £2.5m (prior year £2.5m)

Key developments in financial reporting requirements

- There are no changes to the Code which are expected to have a significant impact on the 2014/15 financial statements.
- The CIPFA/LASAAC Code Board may issue mid-year updates to the Code. Officers should remain alert to pronouncements impacting on 2014/15 financial statements.
- CIPFA have set out the timetable for the implementation of new guidance for the measurement of transport infrastructure assets. The change in accounting policy will apply for the first time from 1 April 2016 and have a significant impact on the measurement of these assets. The 2014/15 Code explains that the change will require restatement of prior period information in the 2016/17 financial statements. As a result the City will also need to maintain records on this new basis from 1 April 2015.

Key developments in our audit response

- No changes to the overall scope of the audit.
- Valuation of investment properties identified as an area of audit risk in view of the judgement involved in estimating the value of the portfolio.
- Recognition of grant income identified as an audit risk taking account of the risk of fraud in revenue recognition presumed in auditing standards and in view of the judgements involved in recognition of grant income.
- Risk of management override of controls, as presumed by auditing standards.

Changes in your Statement of Accounts

Changes in your Statement of Accounts
New reporting requirements

We welcome this opportunity to set out for the Audit and Risk Management Committee a summary of the latest developments in financial reporting which will impact this year end.

Change in Code of Practice on Local Authority Accounting requirements	Impact on the City Fund
The provisions relating to accounting for local government reorganisation and other combinations, have been clarified and augmented including a new definition of a function, clarification of the requirements for a transfer by absorption or a transfer by merger and relevant disclosure requirements.	This is not expected to impact on the 2014/15 financial statements as there are not expected to be any relevant transactions.
The 2014/15 Code includes amendments on the presentation of financial statements to reflect the amendments to IAS 1 as required by the Annual Improvements to IFRS 2009–2012 Cycle issued in May 2012 and also to include local authority statutory reporting requirements in the complete list of financial statements	This is not expected to impact on the 2014/15 financial statements in practice.
Clarification of the adaptation for the determination of the net defined benefit liability (asset) of the term 'sufficient regularity' that the period between the formal actuarial valuations is every four years for police and firefighters' pension funds.	This is not expected to impact on the 2014/15 financial statements as it codifies current actuarial valuation arrangements.
Amendments to IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities), December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities, where applicable.	This is not expected to impact on the 2014/15 financial statements in practice.
The introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011, ie IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011).	This is not expected to impact on the 2014/15 financial statements as group financial statements are not prepared for the City Fund and officers anticipate that changes to the definitions on control will not in practice change past assessments of whether entities and arrangements in which the City has an interest will fall within the group accounting boundary.
A new appendix has been introduced in the 2014/15 Code to confirm for authorities the changes to the future editions of the Code for the measurement of transport infrastructure assets.	This will change significantly the way in which transport infrastructure assets are measured. The change in accounting policy will apply for the first time from 1 April 2016. The 2014/15 Code explains that the change will require restatement of prior period information in the 2016/17 financial statements. As a result the City will also need to maintain records on this new basis from 1 April 2015.
The Code's adoption of IFRS 13 Fair Value Measurement remains under review and therefore the 2014/15 Code does not include any provisions in relation to this standard. CIPFA/LASAAC will keep authorities advised on the latest position on the developments of this standard on the CIPFA/LASAAC pages of the CIPFA website.	The CIPFA/LASAAC Code Board is in a position to issue mid-year updates to the Code. The City will need to track developments in this area.
In its consultation on the 2014/15 Code CIPFA/LASAAC anticipated consulting on the accounting treatment of local authority maintained schools in the Autumn of 2013. This has been subject to review by a Joint Working Group of HM Treasury and CIPFA/LASAAC	The City has only one school within the scope of the guidance and does not anticipate any change to current accounting practice.

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practices Board (APB) and the Audit Commission's Code of Audit Practice. The City will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility. We are also required to report on the regularity of income and expenditure.

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the City.

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the City's whole of government accounts return. Our report is issued to the National Audit Office (NAO) for the purposes of their audit of the Whole of Government Accounts.

Responsibilities related to the City Fund's use of resources

We are required to satisfy ourselves that the City has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in the City Fund's use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

We then provide a conclusion on these arrangements (our "Value for Money Conclusion") as part of our audit report.

Scope of work and approach

Approach to controls testing

As set out in "Briefing on audit matters" circulated to you in July 2011, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

Materiality and error reporting threshold

For the 2014/15 financial statements, we have estimated materiality based on net cost of services for the year and estimated reserves position.

We have set a lower materiality for the Housing Revenue Account based on that Account's reserves position

We will report to the Audit and Risk Management Committee on all unadjusted misstatements greater than the reporting threshold shown below and other adjustments that are qualitatively material.

Estimated materiality and error reporting thresholds

Overall

Materiality - £4.5m (last year £4.5m)
Error reporting threshold - £240k (last year £240k)

Housing Revenue Account

Materiality - £2.5m (last year £2.5m)
Error reporting threshold - £125k (last year £125k)

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

1. Grant income recognition

Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.

Nature of risk

We have identified a key audit risk in revenue recognition from grants from fraud or error. This is due to the fact that where grants have conditions attached revenue should only be recognised when such conditions have been met. In the prior year grant income amounted to £169m.

The key judgement areas and our planned audit challenge

We will examine guidance given to staff on the accounting for grants and associated operating instructions and other arrangements. We will determine whether our work can be further focused on the basis of this.

We will also carry out sample testing on a number of different grants to check that recognition of income properly reflects the grant scheme rules.

2. Valuation of investment properties

The valuation of the City's investment property assets is inherently judgemental.

Nature of risk

The City has a substantial portfolio of investment properties which are subject to annual revaluation (£1,016m at 31 March 2014). Some of the properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the City has recorded significant gains and losses over the last 3 years.

The City intends to have an independent valuation carried out for the purposes of the 31 March 2015 financial statements.

The key judgement areas and our planned audit challenge

We will evaluate the arrangements in place around the property valuation as part of the interim audit. This includes arrangements over the engagement and instruction of the valuer and the provision of data to the valuer.

We will use our valuation specialists, Deloitte Real Estate to review and challenge the appropriateness of the assumptions used in the year-end valuation of the City Fund properties.

3. Oracle upgrade implementation

The principal impact on our work is expected to be around the data transfer

Nature of risk
The Corporation's current project plan anticipates implementation of the Oracle upgrade in February 2015. The implementation will require the transfer of data between the previous instance of the system. However, officers do not anticipate there will be any significant changes to the accounting and financial reporting processes arising from this work.
The key judgement areas and our planned audit challenge
We will understand the arrangements the Corporation has in place regarding the transition to the new system, including the control checks put in place and testing of the completeness of the data transfer. We will focus our testing on the risks to the financial statements, including the completeness of the transfer of trial balance data, the reporting format of the new systems and review of reconciliations and other testing undertaken by the Corporation internally.

4. Management override of controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our work will focus on:

- the testing of journals, using our proprietary software “Spotlight” to analyse the journal data as a basis for focusing our testing on higher risk journals;
- any significant accounting estimates in addition to the estimates discussed above in respect of provisioning for provider claims; and
- any unusual transactions, including those with related parties.

Other accounting judgements and issues

Other accounting judgments and issues which have not currently been identified as significant audit risks are as follows

The Crossrail commitment

- The notes to the financial statements have since 2008/9 disclosed a commitment made by the City to contribute £200 million towards the cost of Crossrail.
- During our audit of the 2008/9 financial statements we discussed with officers their assessment of the accounting treatment for this item. We concurred with officers that the agreement with the Government, contained within an exchange of letters between the Corporation and the Secretary of State, is an "executory contract" (contracts under which both parties are still to perform to an equal degree the actions promised by and required of them under the contract). As such it falls outside the scope of International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets (unless onerous).
- As a result, in past financial statements, whilst the transaction has been disclosed as a commitment, a liability has not yet been recognised on the balance sheet pending performance of the undertakings made by the Secretary of State, which include completion of certain works in relation to Crossrail stations.
- Based on the expected timetable for completion of the scheme, we are not anticipating any change to the position for the 2014/15 financial statements, but will review with officers during our interim and final audit visits.

Pension liability

- The pension liability relating to the pension scheme is substantial so that its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.
- We will consider the qualifications, relevant expertise and independence of the actuary engaged by the Corporation and the instructions and sources of information provided to the actuary. We will include a specialist from our team of actuaries in our engagement team to assist in the review of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.
- We have not identified pension accounting as an area of significant audit risk as there is no impact on the General Fund balance from the accounting entries made under IFRS. However, as this remains an area involving considerable judgement and estimation, we will provide a commentary on the key assumptions used in the valuation of the pension liability in our final report to the Audit and Risk Management Committee.

Value for money conclusion

Value for money conclusion

Our work will focus on the agreement of actions to bridge the funding gap identified in the medium term financial strategy agreed by the Court in March 2014

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the City of London Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the City Fund - this conclusion is known as “the VFM conclusion”.

Specified criteria for auditors’ VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation 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.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Last year we identified a risk in relation to the financial sustainability of the City Fund in the medium term in the light of the impact of the Spending Round 2013 and focused our work in this area. In particular, the timing of Government announcements and the scale of reduction in grant funding meant that the City needed to agree a medium term financial strategy in March 2014 which included budget deficits for the final two years of the medium term financial strategy for local authority spending and a breach of the City Police reserve policy in early 2016/17.

We concluded satisfactorily on this risk in 2014, noting in particular that savings proposals generated through a programme of service based reviews which were progressing through member scrutiny, together with other areas of the ongoing review programme which were in progress, and, for Police expenditure, with the reserve set aside for this purpose, were at the scale required to meet the currently forecast budget deficit. Progress since the issue of our 2014 conclusion on 3 September and the development of delivery arrangements for the programme will be key areas of focus for our work in 2015.

Our preliminary assessment is that there were no further risks in relation to our VFM responsibilities.

Value for money conclusion (continued)

Our work will focus on the agreement of actions to bridge the funding gap identified in the medium term financial strategy agreed by the Court in March 2014

We will carry out our detailed risk assessment from April to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2014/15. The risk assessment involves consideration of common risk factors for local and police authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the City Fund. We will undertake this work through review of relevant documentation, including committee papers and discussion with officers. We will also consider whether there are other risks which might be specific to the City Fund. We will do this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you on request.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Court of Common Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you in July 2011, a copy of which can be made available.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP
Chartered Accountants

St Albans
12 February 2015

This report has been prepared for the Court of Common Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Prior year misstatements
We remind you of prior year misstatements

Uncorrected misstatements

Dwellings were overstated by £350,000 as the valuation process counted an additional property in error. Officers did not adjust for this item as they concluded that this was immaterial.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The paragraph below highlights those areas of disclosure that we considered required consideration by the committee in the prior year in relation to disclosures omitted in the prior year financial statements.

There was one uncorrected disclosure misstatement: In the disclosure of investments in the pension liability disclosure, instruments have not been segregated by industry type, company size and similar categories of risk.

Appendix 2: Independence and fees

We confirm we are independent of the City of London Corporation

As part of our obligations under International Standards on Auditing (UK & Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the City of London Corporation and will reconfirm our independence and objectivity to the Audit and Risk Management Committee for the year ending 31 March 2015 in our final report to the Audit and Risk Management Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately on the next page
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Corporation's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 2: Independence and fees (continued)

We summarise our relationships with the Corporation and explain our assessment of threats to auditor independence and safeguards

As part of our obligations under International Standards on Auditing (UK & Ireland) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity. In addition to audit related assurance services relating to the certification of grant claims and returns and the audit of the City of London Pension scheme, we note the following relationship and related safeguards:

Relationship/Service provided	Threats to auditor independence	Safeguards in place
Advice provided by Deloitte Real Estate in relation to lease advisory work.	Potential threats in relation to self review and self interest. The additional services do not represent material aspects of what we would consider in our audit work. We note that the properties account for only a small part of the City Fund property portfolio or sit within other funds of the Corporation which are outside the scope of our audit. Management remain responsible for agreeing the rent levels. Non audit fees agreed for 2014/15 are in aggregate less than the audit fee.	Non audit work is carried out by partners and staff who have no involvement in the audit and are drawn from a different service line and office from the audit team.

Appendix 2: Independence and fees (continued)

We summarise earned or proposed audit and non audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

	Current year £000	Prior year £000
Audit of the City Fund	*115	117
Audit related assurance services		
Certification of grants and returns on behalf of the Audit Commission	15	17
Certification of grants and returns outside the Audit Commission's certification arrangements	8	-
Other non-audit services		
Lease advisory services	20	14
Tax advisory services - Research paper on financial transaction tax	-	18
Total fees	**156**	**169**
Audit of the City of London pension scheme	21	21

*The fee includes an amount of £8,657 which is additional to the published Audit Commission scale fee. This reflects the loss of synergies previously available from our role as auditor of the private and voluntary funds of the Corporation. This additional amount has been approved by the Audit Commission.

The fee for 2014/15 and 2013/14 includes the cost of additional audit work which is required following the withdrawal of the certification requirements for a return made to the Government in relation to pooled business rates. Our work on the Collection Fund prior 1 April 2013 drew on the work performed in certifying this return. From 2013/14, the scale rate for certification work was reduced to reflect removal of the certification requirement. A compensating adjustment has now been made to the published audit scale rates of £2,600 for all London Boroughs and is reflected in the information above, together with the variation agreed by the Audit Commission in the prior year of £4,115. However, we have requested an additional £1,515 in 2014/15 to reflect the unique monetary significance of this income source relative to the City Fund's other activities. This is subject to agreement with the Audit Commission and has therefore not been reflected in the fee table at this point.

Appendix 3: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities	Our responsibilities
• The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations	• We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. • As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appendix 3: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management's process for identifying and responding to the risks of fraud in the entity Management's communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud	How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will request the following to be stated in the representation letter signed on behalf of the Corporation:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:

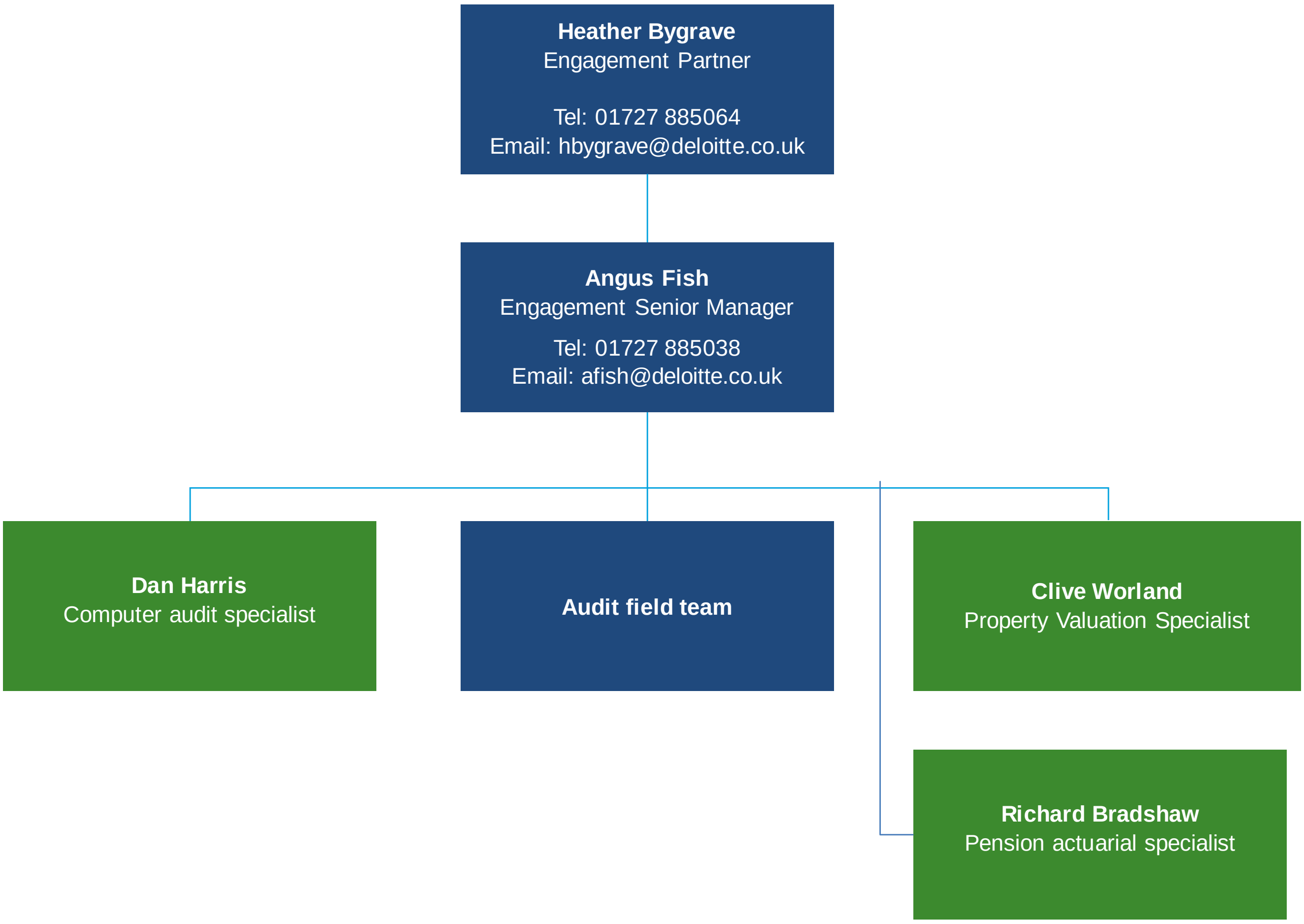
  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4: The audit service team

We set out key members of your audit service team



Appendix 5: Timetable

We summarise the timing of the key phases of the audit

Set out below is the approximate expected timing of our reporting and communication with you.

Planning	Interim audit	Year end work	Reporting	Post reporting
Planning meetings to • confirm our risk assessment and management response; and • agree on key judgemental accounting issues Agree audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks Review of relevant internal audit work Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return.	Final Audit and Risk Management Committee meeting Issuance of • audit report and opinion • value for money conclusion • limited assurance opinion on the WGA return	Audit feedback meeting Presentation of letter of recommendation on control improvements (if applicable) Issue of annual audit letter and presentation to the Audit and Risk Management Committee
Jan 2015	Mar 2015	June–July 2015	July-Sep 2015	Sep 2015

Ongoing communication and feedback

Our interim work will be carried out in the three weeks commencing 23 February 2015.

Our final audit visit will commence on 8 June 2015 and run through to completion of the fieldwork expected at the end of July 2015. We will issue our opinion as soon as possible thereafter.

The work to support our limited assurance report on the WGA return will take place in August/September 2015 and we expect to issue our assurance report in September 2015.

We expect to issue our annual audit letter in September 2015.