Northumberland National Park Authority

Year ending 31 March 2016

Audit Planning Report

Presented to the Finance and Audit Group 9 February 2016

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Building a better
working world

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9 February 2016

Dear Members of the Finance and Audit Group

Audit Plan

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

2015/16 will be our first year as the Authority's external auditor. We have completed our required transitional procedures with our predecessor, Deloitte, including a review of their files. This Plan therefore summarises our preliminary assessment of the key issues which drive the development of an effective audit for Northumberland National Park Authority (the Authority), and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 9 February 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Nicola Wright
For and behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

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

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

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

1. Overview

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

- Our audit opinion on whether the financial statements of the Authority give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and

- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return. We expect to perform limited procedures on the Authority's consolidation pack, which are commensurate with the value of the resources expended and assets held by the Authority. This is in line with the requirements of the NAO.

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

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

- Strategic, operational and financial risks relevant to the financial statements;

- Developments in financial reporting and auditing standards;

- The quality of systems and processes;

- Changes in the business and regulatory environment; and,

- Management's views on all of the above.

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

2. Financial statement risks

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

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

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	We will ► Review and test revenue and expenditure recognition policies ► Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ► Develop a testing strategy to test material revenue and expenditure streams ► Review and test revenue cut-off at the period end date ► Review Department of Health agreement of balances data and investigate significant differences (outside of DH tolerances)
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ► Reviewing accounting estimates for evidence of management bias, and ► Evaluating the business rationale for significant unusual transactions
Accounting for the Sill project	
The Sill capital project has commenced the build phase during 2015/16. As with any capital project the complexity and length of time to complete can vary once the build phase of the project commences. Furthermore, the Authority's total budgeted expenditure for the Sill is £14.8m, of which 13% of this relates to operating expenditure. Judgements and controls need to be effective to appropriately recognise the costs from this significant projects including: ► Appropriate split of costs between capital and operating expenditure; ► Accurate timing of asset recognition; and ► Assessment of the economic useful lives of the asset where costs are capitalised. Additionally, the Authority's funding plan for the Sill project includes a Public Works Loan. The Authority has no previous loan arrangements and this is a significant new class of transaction. Management will need to ensure that they accurately account for the loan and that all required disclosures are included in the financial statements.	Our approach will focus on: ► Review a sample of capital expenditure. ► Understand key controls and governance surrounding capital project accounting and management. ► Evaluate management's judgements and assumptions used in determining the future benefits expected from the project and ensuring they are appropriate and supportable. ► Review whether or not capitalisation of costs is appropriate. ► Consider whether at any stage assets need to be impaired or written off to reflect any aborted or higher risk projects. ► Meet with management to discuss their proposed approach to accounting for the loan. ► Undertake early review of managements proposed accounting treatment and disclosures. ► Review the accounting entries and disclosures prepared against relevant accounting standards and the CIPFA code.

In addition to the significant risk areas highlighted above, our audit work will also consider the following audit risks which, although not likely to result in a material misstatement of the financial statements, require special audit attention.

Other financial statement risks

Assessment of the Authority's Group Boundary	
The Northumberland National Park Foundation came in to being in April 2015, with very similar objectives to those of the Authority. We need to understand the Authority's relationship with the Foundation from a group reporting perspective, and specifically whether the Authority has 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'. This will determine whether the Authority has control of the Foundation and whether the Authority is required to prepare group financial statements.	Our approach will focus on: ► Meet with management to understand the nature of the relationship with the Foundation. ► Review management paper on group boundary considerations. ► Review the memorandum and articles of incorporation. ► Review Foundation board minutes. ► Review funding decisions made by the Foundation.
Accounting for the Hadrian's Cavalry project	
At the 31 March 2015, the Authority's entered in to a collaborative agreement with a number of partners to deliver the Hadrian's Cavalry Project. The Authority is the lead partner for the project, which is funded by the Art to deliver the shared objectives of the project. We will need to consider the Authority's accounting treatment for income and expenditure incurred in the delivery of the project, as the direct benefits of this funding are received by the Museums. Therefore, we are considering whether the Authority, in their role as lead partner, is acting as an agent in its relationship with the museums. This will determine to what extent the Authority records the income and expenditure associated with the Hadrian's Cavalry project in their financial statements.	Our approach will focus on: ► We will discuss the accounting treatment with the Finance manage. ► We will also use our EY technical accounting specialist, as appropriate, to support us with this work and to review the appropriateness of the accounting treatment. ► Review the disclosure in the financial statements to ensure that it is fair, balanced and understandable.
Valuation of land and buildings	
Land and buildings is the most significant balance in the Authority's Balance Sheet. The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the accounts.	We will: ► Review the output of the Authority's valuer ► Challenge the assumptions used by the Authority's valuer by reference to external evidence and our EY valuation experts ► Test the journals for the valuation adjustments to check that they have been accurately processed in the accounts
Judgemental assumptions impacting on the Authority's pension deficit	
At the 31 March 2015, the Authority's defined pension scheme had a deficit of £3.3million. The Authority balance sheet includes their share of the deficit on the Local Government Pension Scheme and liability for unfunded pensions obligations. The assumptions used to arrive at the value of the pension deficit are highly judgemental. The setting of these assumptions in accordance with IAS19(R) Employment Benefits will be an area of audit	Our approach will focus on: ► Review the actuarial report and fund actuary triennial valuation. We will test the reasonableness of key actuarial assumptions. ► We will also use our EY pensions specialist, as appropriate, to support us with this work and to review the appropriateness of the IAS19 valuation methodology. ► Review the disclosure of assets and liabilities and assumptions in the financial statements to ensure that it is fair, balanced and understandable

2.1 Responsibilities in respect of fraud and error

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

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

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

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

3. Value for money risks

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

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

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

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

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

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

We issue an audit report that covers:

1. Financial statement audit

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

We report whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

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

Alongside our audit report, we also:

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

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

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

4.2 Audit process overview

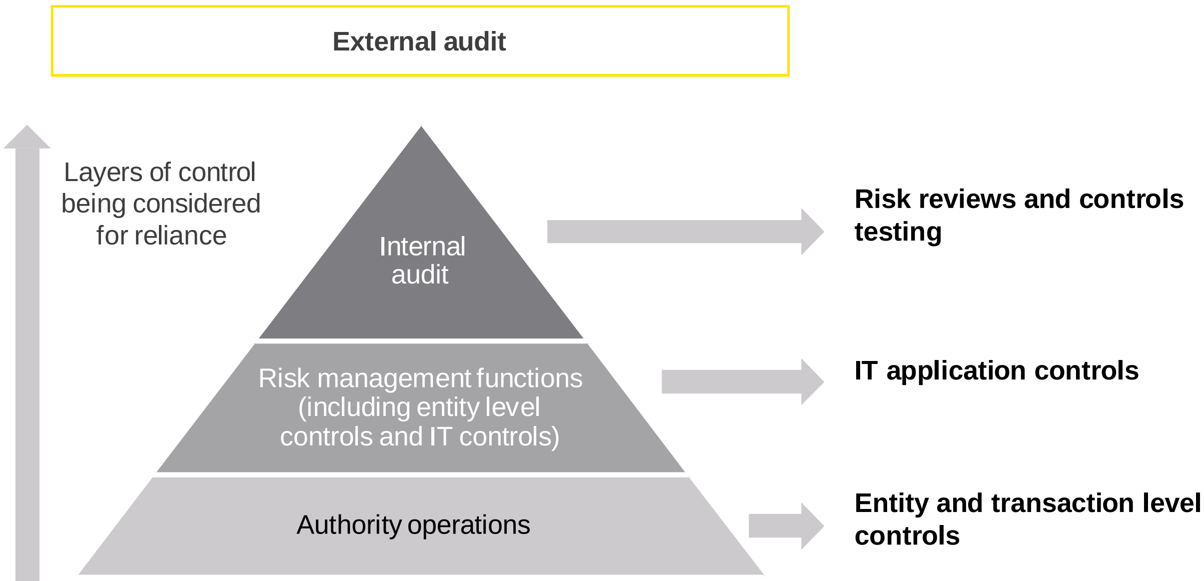
1. The Authority's own assurance processes

We will hold meetings with the finance team, including your systems accountant and wider IT support team, to ensure that our understanding of the systems and controls (including IT controls and the integrity of the IT applications) reflects the documentation and practices of the Authority. This allows us to understand the extent to which the Authority assesses risk, implements controls in order to minimise risk and performs ongoing testing and monitoring of the effectiveness of the controls implemented.

A key element of the monitoring of the control environment is the rolling programme of internal audit assignments and their testing of the effectiveness of controls. We plan to work with management and internal audit to rely on the work of internal audit where possible and avoid duplication of testing.

2. Assessing a controls based approach

- We will complete an assessment of the key finance processes and controls and assess the opportunity to gain audit comfort from the audit of certain processes.
- We will assess the general IT controls built into the Authority's core IT applications, together with IT application controls over your critical business processes. We will assess the robustness of these as a basis for relying on the information which they provide.
- We will pay particular attention to controls around significant risk areas. We will gain an understanding of the Authority's budgeting and budget monitoring process which will assist the audit of income and expenditure categories. We will further consider specific testing surrounding payroll and expenses.
- We will consider the various layers of assurance as demonstrated in the diagram below. This informs our interaction with internal audit.



3. Analytics

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

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Finance and Audit Group.

4. Internal audit

We have held a preliminary meeting with Philip Church, Audit Manager at RSM Risk Assurance Services, and reviewed internal audit plans. We will review the results of their work and reflect the findings from these reports, together with reports from any other work completed in the year, when designing our overall audit approach, where it raises issues that we assess could have a material impact on the year-end financial statements

5. Use of specialists

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

Area	Specialists
Valuation of land and buildings	Authority's valuer EY property valuation experts
Valuation of assets in the course of construction	Authority's quantity surveyor EY valuation experts
Pensions liability	Authority's actuary EY actuarial experts

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

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

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

4.3 Mandatory audit procedures required by auditing standards and the Code

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

Procedures required by standards

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

- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- 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 and the Remuneration Report; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

4.4 Materiality

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

As we conclude our planning activities, we will continue to review a range of bases to calculate materiality, including, total assets and total expenditure. We welcome the Finance and Audit Group's observations on the factors we should consider in arriving at an appropriate basis for setting materiality at the Authority.

At this stage, we consider the most appropriate basis for assessing planning materiality for the Authority to be total expenditure.

The table below shows the planned results if we used total gross revenue expenditure as the basis for materiality. To mitigate the risk of an unidentified material misstatement, all testing is performed using a threshold of tolerable error. The threshold of tolerable error is set for the first year of our audit at 50%, or £35,891.

2014/15 results	£000	Percentage used	Overall materiality £000
Total expenditure	3,589	2%	71

The amount we consider material at the end of the audit may differ from our initial determination. 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. We will also consider the nature of any audit misstatements identified to determine if there are other factors that could result in errors that may appear immaterial quantitatively but which are material qualitatively.

Clearly trivial reporting de minimis

In addition, to the materiality value disclosed above ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we have identified that all misstatements less than £5,902 could be classed as trivial and we would like to seek the Finance and Audit Group's views on this de minimis threshold.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16	**Scale fee 2015/16**	**Outturn fee 2014/15 Prior auditor**
	£	**£**	**£**
Opinion Audit	11,568	11,568	11,568
Total Audit Fee – Code work	**11,568**	**11,568**	**11,568**

All fees exclude VAT.

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

- ► Officers meeting the agreed timetable of deliverables
- ► We can rely on the work of internal audit as planned
- ► Our accounts opinion being unqualified
- ► Appropriate quality of documentation is provided by the Fund
- ► The Fund has an effective control environment

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

1. Changes in our audit scope

The scale fee published by the PSAA is based on the level of financial activity at the Authority during the 2013/14 financial year, and is proportionate with the size and scale of the Authority's activities at that time.

During 2014/15 the Authority commenced the delivery phase of the £14.8m Sill project, which is expected to be completed by 2017/18. This will substantially change the size and complexity of the Authority's financial statements over this period. In turn this increases the level of audit testing required to obtain assurance over the additional transactions, balances and disclosures required.

In accounting for the different elements of the Sill project, the Authority will need to adopt new accounting treatments for the assets in the course of construction, loan arrangement and the reserves required to replace/refurbish the asset over the course of time.

Due to this change in the scope of our work we have agreed £4000 additional fees with the Authority for the additional work associated with the Sill project expenditure.

4.6 Your audit team

Your audit team will consist of members of the specialist Government & Public Sector assurance team based in the North East and will be led by Nicola Wright and Daniel Houghton. Nicola and Daniel both have significant experience of public sector audit and their role is expanded here. Nicola and Daniel will be supported by a qualified audit executive, who will lead the onsite field team. A summary of their role and experience is set out below

Nicola Wright **Executive Director** **Tel: (0191) 269 4887** **Mobile: 07341 078397** **Email: nwright1@uk.ey.com**	**Background** • Nicola is an Executive Director in EY's Government and Public Sector (GPS) Assurance team in the North East. She has 18 years of experience in public sector external audit across local government, the NHS, housing, education and charities sector. **Role on audit** • Nicola will be the Executive Director responsible for delivering the audit, including agreeing the audit plan and management letter, the quality of outputs and signing of opinions and conclusions. • She will also be responsible for liaison with Stuart Evans, Head of Corporate Services and Hazel Fitzsimmons, Finance Manager and attending Group meetings.
Daniel Houghton **Manager** **Tel: (0191) 269 4822** **Mobile: 07814 576375** **email: dhoughton@uk.ey.com**	**Background** • Daniel is a Manager in EY's GPS Assurance team in the North East. He has over 14 years of experience in public sector external audit across central government, local government, the NHS, housing, and charities sector. **Role on audit** • Daniel will be the Manager responsible for overseeing the external audit of the Authority and will be the main contact for day to day communications with the management team. • Daniel will also attend Group meetings alongside Nicola.

4.7 Timetable of communication, deliverables and insights

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

We will provide a formal Audit Results Report to the Finance and Audit Group at year end for the Authority's financial statements. This report will incorporate the outputs from our process and controls procedures and our year end audit procedures. From time to time matters may arise that require immediate communication with the Finance and Audit Group and we will discuss them with the Finance and Audit Group Chair, as appropriate.

We will also provide you with real-time control issues and observations as identified where these are significant in nature. Our reporting to the Finance and Audit Group will also contain practical business insights, updates on corporate governance and regulatory matters.

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

Audit phase	Timetable	Finance and Audit Group Timetable	Deliverables
Testing routine processes and controls	February 2016		
Year-end audit	June 2016		
Completion of audit	August/September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	September 2016	October 2016	Annual Audit Letter

5. Independence

5.1 Introduction

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

Required communications

Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Authority.

At the time of writing, there are no long outstanding fees.

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

At the time of writing, no fees for non-audit services have been agreed with the Authority.

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

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

Self-review threats

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

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

Management threats

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

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

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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

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

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

Appendix A UK required communications with those charged with governance

There are certain communications that we must provide to the Finance and Audit Group. 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 ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	► Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	► Report to those charged with governance
Fraud ► Enquiries of the Finance and Audit Group to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	► Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► 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 ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	► Report to those charged with governance
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Finance and Audit Group into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Finance and Audit Group may be aware of	► Report to those charged with governance

Required communication	Reference
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► 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 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	► Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	► Report to those charged with governance
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	► Audit Plan ► Report to those charged with governance ► Annual Audit Letter if considered necessary
Opening Balances (initial audits) ► Findings and issues regarding the opening balance of initial audits	► Report to those charged with governance

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