

Adur District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

The Members
Adur District Council
Worthing Town Hall
Chapel Road
Worthing
West Sussex
BN11 1HA

October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 29 September 2015 Joint Governance Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Adur District Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

Kate Handy
Director
For and on behalf of Ernst & Young LLP
Enc.

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The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 27 May 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources;
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Adur District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 6 October 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 6 October 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 6 October 2015.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 29 September 2015 to the Joint Governance Committee.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 6 October 2015.

In March 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 6 October 2015.

Our detailed findings were reported to the 29 September 2015 Joint Governance Committee.

The main issues identified as part of our audit were:

Significant risk: Risk of management override

Issue

- 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.

Findings

- We found no evidence that controls had been over-ridden by management or that estimates reflected any management bias, and we did not identify any unusual transactions.
-

As reported in our Annual Results Report, we experienced a number of delays throughout our audit. These primarily stemmed from sickness and shortages of key finance staff to answer our queries. Despite the provision of additional audit staff, we were not able to complete our audit by the statutory deadline.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 6 October 2015. We noted the following issues as part of our audit.

Key finding: Longer-term financial strategy

Issue

- The Council faces a significant financial management challenge over the coming years, including managing:
 - the implications of the current economic climate;
 - the significant reductions in the level of future central government funding;
 - the impact of the funding changes set out in the Local Government Finance Act 2012 and elsewhere; and
 - increases in demand for services linked to significant demographic changes such as the ageing population and rising birth rate.
- Whilst we concluded last year that the Council's Medium Term Financial Plan was sound, we commented that, the Council will need to balance the challenge of delivering the savings/cuts needed against nurturing the drivers of future sustainability. At the time of our planning, the Council's Medium Term Financial Plan showed the Council had yet to identify savings to 2017/18 of £1.69m.

Findings

- We considered the Council's medium term financial planning and note that it recognises the on-going uncertainty caused by changes to funding and makes sensible assumptions about their impact. Plans are in place to deliver the 2015/16 savings and the majority of those required in 2016/17.
 - The Council fully expects to achieve the planned and as yet unidentified savings with no plans to utilise any of its reserves. However, after several years of cuts it is getting harder to achieve this. The Audit Commission's profile shows that the Council's total reserves as a percentage of net expenditure were already in the lowest 20% of comparable authorities in 2013/14 and reserves have reduced by £1.5m in 2014/15. However, the Council does have a good track record of achieving the savings it requires to date and it has £2m in general fund and earmarked reserves some of which could be used to bridge the gap.
 - The Council's s151 officer is currently in discussion with Heads of Service on the options available to the Council to close the gap. This is in preparation for the budget papers that will go to the Joint Strategic Committee in December 2015 and to Cabinet in early February 2016.
 - Whilst we concluded that the Council has appropriate arrangements in place to secure financial resilience for the next two or three years, it has some difficult decisions ahead and needs to ensure current plans are delivered and new plans are identified. With the recent loss of key staff in the finance department, the Council also needs to ensure it has sufficient resources to support this process.
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2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Joint Governance Committee on 29 September 2015. In our professional judgement the firm is independent and the objectivity of the Director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification Report for 2014/15 in March 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

One of the more significant challenges we expect local authorities face in the near future is the implementation of the requirements for Highways Network Assets (formerly Transport Infrastructure Assets).

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p>	<p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p> <p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact as it is responsible for assets such as:</p> <ul style="list-style-type: none"> • HRA infrastructure • Footways • Unadopted roads on industrial or HRA estates • Cycleways • Street Furniture
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>

5. Fees

Our final fee for 2014/15 differs from the scale fee as a result of:

- slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing our queries and reviewing responses which led to delay in completion of audit procedures;
- a late adjustment to the CIES processed by finance staff, requiring us to revisit several areas of testing to ensure sufficient audit work had been done.
- a number of amendments made to the cash flow statement and supporting notes.
- several versions of the financial statements being presented for audit.
- additional work was also required to consider whether there was sufficient evidence to show the Council's savings plans will be deliverable.

Additional work was also required in relation to the Value for Money significant risk identified in our Audit Plan.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£TBC	£64,163	£64,163	£64,163
Total Audit Fee – Certification of claims and returns	£TBC	£13,480	£13,480	£36,587

Notes:

Additional fee for our Code work has been agreed with officers. These additional fees are subject to approval by PSAA. We will therefore update those charged with governance following PSAA approval.

Our fee for the certification of grants and claims is yet to be finalised for 2014/15 as the work is ongoing. We plan to report this to those charged with governance in March 2016 in our report summarising the certification (of grant claims and returns) work we have undertaken.

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Adur & Worthing Joint Committee

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Annual Audit Letter 2014/15

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We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 29 September 2015 Joint Governance Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Adur & Worthing Joint Committee.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

Kate Handy
Director
For and on behalf of Ernst & Young LLP
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1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 27 May 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Joint Committee is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Joint Committee reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Joint Committee is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Joint Committee's AGS;
- forming a conclusion on the arrangements the Joint Committee has to secure economy, efficiency and effectiveness in its use of resources;
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Adur & Worthing Joint Committee for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 30 September 2015 we issued an unqualified audit opinion on the Joint Committee's financial statements.
Form a conclusion on the arrangements the Joint Committee has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2015 we concluded that there were no matters we needed to report.
Consider the completeness of disclosures on the Joint Committee's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Joint Committee with the significant findings from our audit.

Our Audit Results Report was issued on 29 September 2015 to the Joint Governance Committee.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 30 September 2015.

2. Key findings

2.1 Financial statement audit

The Joint Committee's Statement of Accounts is an important tool to show both how the Joint Committee has used public money and how it can demonstrate its financial management and financial health.

We audited the Joint Committee's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 29 September 2015 Joint Governance Committee.

The main issues identified as part of our audit were:

Significant risk: Risk of management override

Issue

- 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.

Findings

- We found no evidence that controls had been over-ridden by management or that estimates reflected any management bias, and we did not identify any unusual transactions.
-

As reported in our Annual Results Report, we experienced a number of delays throughout our audit. These primarily stemmed from sickness and shortages of key finance staff to answer our queries. Through the provision of additional audit staff, we were able to complete our audit by the statutory deadline.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Joint Committee has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was limited to:

- ▶ reviewing the Annual Governance Statement;
- ▶ reviewing the results of any work undertaken by the Audit Commission and other regulatory bodies or inspectorates to consider whether it impacts on our audit responsibilities;
- ▶ undertaking other local risk-based work, as appropriate, or any work mandated by the Commission.

On 30 September 2015 we concluded that there were no matters we needed to report.

2.3 Annual Governance Statement

We are required to consider the completeness of disclosures in the Joint Committee's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.4 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.5 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.6 Independence

We communicated our assessment of independence to the Joint Governance Committee on 29 September 2015. In our professional judgement the firm is independent and the objectivity of the Director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Joint Committee about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of internal control that might result in a material misstatement in the Joint Committee's financial statements.

4. Fees

Our final fee for 2014/15 differs from the scale fee as a result of slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing our queries and reviewing responses which led to delay in completion of audit procedures.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£TBC	£22,547	£22,547	£22,547

Notes:

Additional fee for our Code work has been agreed with officers. These additional fees are subject to approval by PSAA. We will therefore update those charged with governance following PSAA approval.

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Worthing Borough Council

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Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

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Issue

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Findings

- We found no evidence that controls had been over-ridden by management or that estimates reflected any management bias, and we did not identify any unusual transactions.
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In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2015.

We noted the following issues as part of our audit

Key finding 1: Medium Term Financial Planning

Issue

- The Council faces a significant financial management challenge over the coming years, including managing:
 - the implications of the current economic climate;
 - the significant reductions in the level of future central government funding;
 - the impact of the funding changes set out in the Local Government Finance Act 2012 and elsewhere; and
 - increases in demand for services linked to significant demographic changes such as the ageing population and rising birth rate.
- The Borough Council's 2013/14 outturn showed an overspend for the first time in several years of £299,000. This effectively exhausted 26% of the brought forward general fund reserves. At the time of issuing our plan, the Council's Medium Term Financial Plan showed the Council had yet to identify savings to 2017/18 of £2.04m.

Findings

- As part of our value for money conclusion work, we considered the Council's financial planning and noted that it recognises the on-going uncertainty caused by changes to funding and makes sensible assumptions about their impact.
 - Plans are in place to deliver the 2015/16 savings and the majority of those required in 2016/17. The Council fully expects to achieve the planned and as yet unidentified savings with no plans to utilise any of its reserves. However, after several years of cuts it is getting harder to achieve this. The Audit Commission's profile shows that the Council's total reserves as a percentage of net expenditure were already in the lowest 10% of comparable authorities in 2013/14 and reserves have reduced by £1.6m in 2014/15. However, the Council does have a good track record of achieving the savings it requires to date and it has £3.1m in general fund and earmarked reserves some of which could be used to bridge the gap.
 - The Council's s151 officer is currently in discussion with Heads of Service on the options available to the Council to close the gap. This is in preparation for the budget papers that will go to the Joint Strategic Committee December 2015 and to Cabinet in early February 2016.
 - Whilst we concluded that the Council has appropriate arrangements in place to secure financial resilience for the next two or three years, it has some difficult decisions ahead and needs to ensure current plans are delivered and new plans are identified. With the recent loss of key staff in the finance department, the Council also needs to ensure it has sufficient resources to support this process.
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2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Joint Governance Committee on 29 September 2015. In our professional judgement the firm is independent and the objectivity of the Director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification Report for 2014/15 in March 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

One of the more significant challenges we expect local authorities face in the near future is the implementation of the requirements for Highways Network Assets (formerly Transport Infrastructure Assets).

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p>	<p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p> <p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact as it is responsible for assets such as:</p> <ul style="list-style-type: none"> • Footways • Unadopted roads on industrial • Cycleways • Street Furniture
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>

5. Fees

Our final fee for 2014/15 differs from the scale fee as a result of:

- slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing our queries and reviewing responses which led to delay in completion of audit procedures;
- a late adjustment to the CIES processed by finance staff, requiring us to revisit several areas of testing to ensure sufficient audit work had been done; and
- additional work was also required to consider whether there was sufficient evidence to show the Council's savings plans will be deliverable.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£TBC	£62,876	£62,876	£62,876
Total Audit Fee – Certification of claims and returns	£TBC	£7,731	£7,731	£10,912

Notes:

Additional fee for our Code work has been agreed with officers. These additional fees are subject to approval by PSAA. We will therefore update those charged with governance following PSAA approval.

Our fee for the certification of grants and claims is yet to be finalised for 2014/15 as the work is ongoing. We plan to report this to those charged with governance in March 2016 in our report summarising the certification (of grant claims and returns) work we have undertaken.

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