

Suffolk County Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

Addendum to present at the Audit Committee on the 25 September 2015



Building a better
working world

Contents

		Page
Section 1	Executive summary	3
Section 2	Extent and purpose of our work	5
Section 3	Addressing audit risks	7
Section 4	Financial statements audit – issues and findings	11
Section 5	Arrangements to secure economy, efficiency and effectiveness	14
Section 6	Independence and audit fees	17
 Appendices		
Appendix A	Corrected audit misstatements	21

Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

The quality of the Council's working papers and quick resolution of our audit queries has again facilitated our audit.

Financial statements

- ▶ The Council's energy from waste plant PFI in Great Blakenham became operational in December 2014. In the 2014/2015 financial year, the Council recognised the waste plant PFI in the financial statements for the first time, valued at £180 million. Whilst there are PFIs elsewhere in the public sector, there is little precedent for the accounting and valuation of waste plant PFIs. This was a time consuming exercise for the Council's finance team, involving complex estimation techniques and represents a significant audit risk. Both the Council and us as auditors have needed to commission and consider representations from our respective experts on the appropriate accounting and valuation of the waste PFI site. This was the most significant accounting judgement for the Council in the 2014/2015 financial year, and required significant audit time, as detailed in the findings in this report. The Council have taken the accounting and valuation of the waste plant facility seriously, and have engaged experts throughout. Inevitably, there are learning points arising from this process regarding the approach to accounting for and valuing such specialised assets. We have discussed some improvements the Council could make to strengthen its internal controls in this area.
- ▶ The Council has corrected the financial statements for adjustments made to the PFI accounting model, set out at Appendix A. We have completed our work to assess the reasonableness of the valuation of the waste plant facility using the depreciated replacement cost method. The Council has corrected a judgemental misstatement which undervalued the facility by £10.2million to reflect indexation since 2011.
- ▶ Our work on the Council's financial statements is complete and we will issue an unqualified audit opinion on the 25th September 2015. In addition to the PFI, there are other accounting judgements that the Council has had to consider this year, including schools accounting, recognition of third party monies, valuation of its asset base and assessment of its group boundary. Except for the PFI accounting, the limited matters arising we have confirm that the Council continues to prepare its financial statements and work papers to a high standard.

Value for money

- ▶ We conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We will issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/2015 financial statements and the consistency of information included in the foreword
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>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.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; and • Evaluated the business rationale for significant unusual transactions. 	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.</p>
<p>The Council has a PFI contract with SITA Suffolk Ltd to build and operate an energy plant from a waste facility at Great Blakenham. The plant was completed and became operational in December 2014. The Code requires that the PFI asset, the related PFI liability, and income and expenditure arising from the contract are recognised in the Council's accounts from the date the asset becomes operational and service provision commences in accordance with IFRIC 12. There is therefore a risk that the transactions and balances relating to the PFI contract may be incorrectly accounted for, accounted for from the incorrect date or omitted from the accounts.</p>	<ul style="list-style-type: none"> • Reviewed and concluded on the accounting model adopted in respect of the PFI contract; • Reviewed how the asset, the related liability, income and expenditure have been accounted for in line with the accounting model; • Reviewed the processes to value the PFI plant; and • Ensured that the impact of the PFI scheme is appropriately considered and addressed in the Capital Financing Requirement and Minimum Revenue Provision. 	<p>Work undertaken identified that significant adjustments were needed to the PFI accounting model, leading to amendments in the financial statements as detailed in Appendix A of this report.</p> <p>We have concluded our work on the valuation of the PFI facility. See our findings on page 12 of this report.</p>

Addressing audit risks – significant audit risks continued

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>Accounting for schools has been a key issue over previous years. This has focused on the accounting treatment of assets held by locally maintained schools and whether these assets are controlled by the local authority and therefore on the Council's balance sheet. This control assessment has focused on the five main categories of schools, community, voluntary controlled, voluntary aided, foundations and academies. During 2014/2015, guidance has been issued in this area, specifically an update to the Code and LAAP Bulletin 101; Accounting for Non-Current Assets Used by Local Authority Maintained Schools. The updated guidance considers further the impact of ownership on the control assessment; specifically the fact that voluntary controlled, voluntary aided and a number of foundation schools may be owned by religious bodies.</p>	<ul style="list-style-type: none"> • Reviewed and concluded on the Council's assessment of who receives the future economic benefit or service potential of the schools and the related playing fields; • Considered the explanation of what specific factors have altered if a change in accounting treatment is required; • Reviewed any key correspondence in place with religious bodies and/or foundation school trusts/governing bodies regarding these assets; and • Assessed the appropriateness of the accounting policy and accounting entries in the accounts relating to this issue. 	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement.</p>

Addressing audit risks – other audit risks

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Other audit risks</p> <p>At the 31 March 2015, the Council holds £27.4million of monies on behalf of third parties, particularly for partnership arrangements. In the 2012/2013 and 2013/2014 financial years the Council did not include the cash holdings and the associated liability to repay on the balance sheet. The Council has revisited the accounting policy for third party monies against International Accounting Standard 8. The Council is proposing to now include the cash holdings and associated liability on the Council's balance sheet on the basis that there is sufficient evidence that they exert control and have exposure to variable returns from holding these monies. The Council believes this change provides more reliable and relevant information about the effects of transactions on the Council's cash flows. As the Council has changed their accounting policy in the 2014/2015 financial year, they are restating the prior period comparatives to consistently account for the treatment of third party monies. Although none of the proposed changes has any impact on the Council's general fund balance, asset base or level of reserves, this is a material change in accounting policy and therefore there is a risk of material misstatement in the Council's financial statements.</p>	<ul style="list-style-type: none"> • Tested the validity of the Council's proposed Prior Period Adjustment against IAS8 • Verified the third party monies disclosed in the Council's 2014/2015 financial statements to accounting records. • Reviewed the proposed accounting entries for the 2014/2015 financial year and restated comparatives for the 2013/14 and where applicable the 2012/2013 financial year. • Reviewed the Council's proposed disclosure of the change in accounting policy and prior period adjustment. 	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement. Amendments were made to the narrative disclosures regarding third party monies to clarify that this change does not relate to a change in accounting policy. The revised narrative confirms that the Council did have control over third party monies and the matter is therefore appropriately disclosed as a correction of a prior year error as there have been no change in circumstances in prior years.</p>
<p>The Council is reviewing its contracts with divested companies in relation to the IAS19 pension liabilities. There is a risk that the Council's liability in relation to IAS19 is either not correctly reflected in the contracts or not accounted for appropriately in the accounts.</p>	<ul style="list-style-type: none"> • Reviewed contract amendments made; • Reviewed the calculations of the liabilities and the accounting entries relating to IAS19 reflected in in the Council's 2014/2015 financial statements; and • Confirmed the status of the contracts where no change is proposed. 	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Receipt of a Letter of Representation

Subject to the satisfactory resolution of the above item, we propose to issue an unqualified audit report on the financial statements.

Corrected misstatements

- ▶ We identified one judgemental misstatement relating to the valuation of the PFI energy from waste plant, which came on balance sheet for the first time this year, which management has amended in the financial statements. Following detailed analysis by our Estates experts of the Council's basis and data used to arrive at the £180million valuation of the Waste PFI plant, we have concluded that the Council had not appropriately applied indexation to the period when the cost of the plant was fixed in 2011 and the 31 March 2015 valuation date.
- ▶ In our view, the Waste PFI plant could reasonably have resulted in an additional uplift of 5.7%, reflecting our interpretation of the likely movements in prices since 2011. This would mean that the Waste PFI plant could be undervalued by at least £10.2million. This figure has some judgemental and estimation uncertainty as the Council is not yet in a position of confirming the actual incurred cost and would need to revisit this when known and conduct an impairment review. Therefore, the valuation of the Waste PFI plant could reasonably be expected to have some future upsides (indexation) and downsides (impairment review).
- ▶ The Council has amended the financial statements for this £10.2million judgemental misstatement. We have concluded, following this adjustment, that the valuation of the Waste PFI plant at 31 March 2015 is within a reasonable range of error and uncertainty.

- ▶ In addition, our audit identified misstatements relating to the PFI accounting model as noted in the paragraph below, and one further matter, which our team have highlighted to management for amendment. These have been corrected during the course of our work.
- ▶ The waste PFI operator funds the asset underlying the project from a mix of payments from the Council. Part of the payments do not depend on how much waste is treated, further payments do depend on how much waste is treated, and other payments represent revenue from parties other than the Council. This means that while the Council recognises all of the assets on the balance sheet, it recognises a liability to pay for some of those assets and the remainder, which the operator funds from third party revenues, are donated assets. The draft accounts required correction to reduce the long term liability balance, some service costs and the financial liability interest. Details of these adjustments are provided at Appendix A .

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest.

Other than the matters we set out on page 12 of this report regarding the valuation and accounting model for the Waste PFI plant, we have no other matters to report.

Financial statements audit – issues and misstatements arising from the audit

Review of the accounting model and valuation for the Waste PFI plant

- We encountered difficulties in obtaining sufficient evidence to support the basis and methodology for the £180 million valuation of the PFI plant, including the use of the method of valuation known as depreciated replacement cost. Along with our EY valuation experts, we worked with officers and the Council's valuers to obtain further information and explanations to support the valuation recognised in the 2014/2015 financial statements.
- The working papers initially obtained to support the valuation did not provide sufficient evidence to support that the correct valuation basis for the PFI had been used, or provided sufficient detail to support the costs used as the basis of the valuation. Work in this area was complex and time consuming, for both the Council and us as auditors.
- Although we did disagree with many elements of the valuer's application, the advised depreciated replacement cost value does not appear unreasonable given what appear to have been an absence of relevant and necessary up to date data on cost incurred that should have been made available to the valuer given the recent construction of the facility. However, we must highlight the following points:
 - Although this plant is a specialised asset, which in turn suggests the adoption of depreciated replacement cost as a proxy of Fair Value, in our opinion the Fair Value of the waste incinerator plant could also be assessed alternatively by reference to the cash flows it generates – for example by reference to trading potential. As an operational facility, such a plant could be potentially sold on the open market having regard to the cash flows generated. Therefore we would have expected the Council's valuer to also consider the income approach, or at least, explain why the plant should only be valued using the cost approach. That said, we believe that due to the nature of this specific facility, and the almost impossible task of modelling the hypothetical cash flows that would be faced by the valuer in the absence of this data, then it is reasonable to default to depreciated replacement cost.
 - In addition, even though we would not expect the Fair Value to be materially different for the purposes set out above, we would have expected the Council's valuers to provide a more detailed overview of the plant and refer to construction cost data for similar plants as a minimum to support the Fair Value adopted and to have explained why it is not appropriate to value by reference to trading potential.
 - Having determined that the appropriate approach to the valuation is by depreciated replacement cost, and that the best evidence of the replacement cost of the Modern Equivalent Asset is the actual cost incurred then we believe that in absence of any available other data, it was reasonable to adopt a cost of £180million which aligns with the financial modelling being carried out in 2011.
 - However, we also believe that this figure should have indexed to allow for the approximate years period between this cost when fixed and the valuation date. Management has amended the financial statements to uplift this figure by £10.2 million, being an additional 5.7%, reflecting our interpretation of the likely movements in prices over this period. In concluding this, we have also had regard to a high implied uplift that could have been argued had tender price based index being adopted. We are comfortable in focusing upon the lower end of the range given the wider uncertainty created by the absence of reliable/verifiable cost incurred data.
 - The concluded land value of £7.97million is a very significant uplift from the value disregarding the "premium value" attributed for this use. It is recognized that additional value would be generated by the benefits of a planning consent and licenses for this use. The uplift in value has not been justified. That said, it is extremely difficult to provide an alternative approach without examining the potential profitability of the facility. For this reason we believe the concluded land value is not materially misstated and reasonable albeit not capable of justification by reference to sale of industrial land in this area.
 - In addition, further work was also required on the accounting model to revise a number of entries in the financial statements as detailed in Appendix A. As detailed in the corrected misstatements narrative, the Council's accounting model required revision to reflect the nature of the transactions relating to the PFI.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item		Amount (£m)
Planning Materiality and Tolerable Error	<p>We determined planning materiality to be £10.8 million (2014: £20.8 million), which is 1% of gross expenditure reported in the accounts of £1,074 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/2014 financial statements and no uncorrected errors.</p>	10.8
Reporting Threshold	We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.537 million (2014: £1.04 million),	0.537

We also identified the fire pension fund statement as an area where misstatement at a level lower than our overall materiality level might influence the reader. For this area we developed a specific audit strategy based on the lower materiality level.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.
- ▶ Our work on the PFI has incurred more time than originally planned due to revisions required to the work of the Council's experts. The valuation of the PFI plant required significantly more detail to support the basis and methodology of the valuation and the accounting model producing the entries relating to the PFI in the financial statements also required amendments, set out at Appendix A. **Officers sought to address the complexity of the PFI transaction through engaging experts.** We have discussed improvements to the procedures used by the Council in determining the selection of experts to support work on complex transactions with officers, including the assessment of the prior experience of the expert in undertaking similar work to obtain sufficient assurance on the scope of the experts work and approach.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We have substantially concluded our work and have no issues to report at this stage. We are currently finalising our work in this area and will report any updated matters that arise to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Suffolk County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We identified two significant risks in relation to this criteria (also applying to criteria 2):
 - ▶ Pressures from economic downturn
 - ▶ Contract management of outsourced services
- ▶ We have no issues to report in relation to this criteria.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We identified two significant risks in relation to this criteria (also applying to criteria 1):
 - ▶ Pressures from economic downturn
 - ▶ Contract management of outsourced services
- ▶ We have no issues to report in relation to this criteria.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertake additional audit work to enable them to reach an appropriate conclusion.

Pressures from economic downturn

Financial resilience/Economy Efficiency and Effectiveness

To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Comprehensive Spending Review will continue to impact on the Council's budget and medium term financial planning during current and forthcoming financial years. The Council is currently predicting a £120 million budget gap to 2017/2018 and has a number of service transformation programme plans to achieve the required savings in the medium term..

To address this risk we reviewed:

- The adequacy of the Council's budget setting process;
- The robustness of any assumptions;
- The effective use of scenario planning in budget setting;
- The effectiveness of in year monitoring against the budget; and
- The Council's approach to prioritising resources, identifying and delivering savings programmes in the short, medium and long term.

The work undertaken was sufficient to support an unqualified VFM conclusion.

Contract management of outsourced services

Financial resilience/Economy Efficiency and Effectiveness

The Council has undertaken a number of divestments and is responsible for managing contracted services valued at over £75 million. The number of contracts to be managed represents a significant challenge for the Council and brings both financial and reputational risks.

To address this risk we:

- Updated our knowledge and understanding of arrangements in place following our detailed review of this area in 2012/2013;
- Reviewed the adequacy of the Council's arrangements for managing the risks relating to outsourced services; and
- Reviewed the adequacy of the Council's arrangements for managing the risks relating to commercial activities.

The work undertaken was sufficient to support an unqualified VFM conclusion.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 July 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan dated 21 July 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	133,690	120,690	Final fee to be confirmed.
Certification of claims and returns	-	-	No claims to be certified for 2014/2015 under the certification regime.
Non-Audit work	40,250	40,250	Non-audit work has taken place in 2014/2015 as detailed below.

- ▶ Our actual fee is likely to exceed the proposed fee of £133,690 due to additional work required in respect of the PFI energy from waste plant.
- ▶ We have undertaken non-audit work outside of the former Audit Commission's Audit Code requirements on PFI refinancing work as detailed in our audit plan, in the sum of £20,000. Further non-audit work is proposed in respect of certification of claims and returns falling outside the certification regime. This work is to be confirmed. The estimated fees for this work are in the region of £20,000 - £25,000.

Section 7

Appendices

Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements greater than £10 million have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
			Debit/(credit)	Debit/(credit)
	Description	F, P, J		
1. Service Income/Expenditure	PFI Costs	J		£412,260
2. Service Income/Expenditure	PFI Income	J		£3,896,953
3. Interest payable	PFI Costs	J		(£3,381,781)
4. Capital grant income	PFI Income	J		(£1,222,165)
5. Short term liabilities	PFI balance sheet	J	£629,033	
6. Long term liabilities	PFI balance sheet	J	£120,660,031	
7. Short term donated asset account	PFI balance sheet	J	(£4,839,773)	
8. Long term donated asset account	PFI balance sheet	J	(£116,154,558)	

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix A – corrected audit misstatements (cont'd)

Item of account	Nature	Type	Comprehensive income and expenditure statement	
			Balance sheet	Debit/(credit)
	Description	F, P, J	Debit/(credit)	Debit/(credit)
9. Property Plant and Equipment	Reduction in downward revaluation of PFI asset	J	10,200,000	
10. Environment and Regulatory Services expenditure	Reduction in downward revaluation of PFI asset	J		(10,200,000)
Cumulative effect of corrected misstatement			10,494,733	(10,494,733)

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)