Corby Borough Council
Audit planning report

Year ended 31 March 2021

Presenting to North Northamptonshire Audit and Governance Committee

EY

Building a better working world

24 January 2023

Dear Governance and Audit Committee Members

Audit planning report

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 Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

At the date of preparing this report, we have substantially completed our audit planning procedures and risk assessment for the audit of the Council's financial statements. Our risk assessment and audit procedures associated with the Council's value for money arrangements remains ongoing. We will report to the Audit and Governance Committee if our planning and risk assessment work identifies any risks of significant weaknesses in the Council's value for money arrangements, and thereafter if we believe these will have materialised, including any associated recommendations

We welcome the opportunity to discuss this report with you within the next month as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Elizabeth Jackson

Partner

For and on behalf of Ernst & Young LLP

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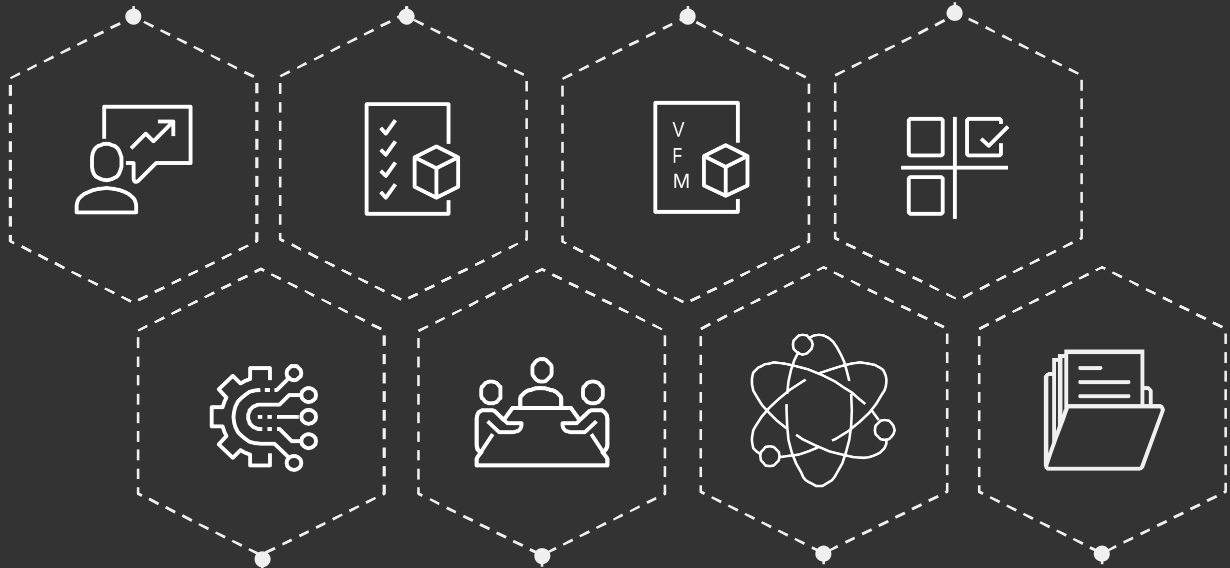

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Corby Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Corby Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Corby Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Governance and Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change from assessment made in 19/20 audit	As identified in ISA 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 would otherwise appear to be operating effectively.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change from assessment made in 19/20 audit	As noted above, under ISA240, management is in a unique position to perpetrate fraud through the override of controls. We have considered the main areas where Management may have the incentive and opportunity to do this. We have identified the inappropriate capitalization of revenue expenditure on property, plant and equipment as an area of risk, given the extent of the Council's capital programme.
Valuation of Investment Properties	Significant Risk	No change from assessment made in 19/20 audit	The valuation of Investment Property represent significant balances in the Council's accounts. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk Investment Property may be under/overstated or the associated accounting entries incorrectly posted. The risk is heightened for traditional retail assets due to market difficulties, partly arising from the advent of Covid-19 (C-19).
Valuation of Council Dwellings	Significant Risk	New Risk in 20/21	The valuation of Council Dwellings represent significant balances in the Council's accounts. Our initial planning work on the draft financial statements received for audit highlighted a year on year increase of £46m (18%) in the valuation of council dwellings when compared to the prior year. We have therefore assessed this as a significant risk to ensure the appropriate focus is given to it.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters identified as a result of Covid-19. It seeks to provide the Governance and Audit Committee with an overview of any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Other Land and Buildings	Inherent risk	No change from assessment made in 19/20 audit	The value of Other Land and Buildings represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgements about key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Recognition of grant income associated with Covid 19	Inherent risk	New Risk in 20/21	The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position. We will consider the elements of grant income, their susceptibility to manipulation and the appropriate audit response. We will review the conditions and restrictions attached to the grants, the purpose of the grants and circumstances if the council acts as a principle or an agent.
Pension liability valuation	Inherent risk	No change from assessment made in 19/20 audit	The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality
£1,118k

Materiality has been set at £1,118,860, which represents 2% of gross expenditure on provision of services in the 2020/21 draft financial statements.

Tolerable error
£559k

Performance materiality has been set at £559,430, which represents 50% of materiality. We are able to set materiality at either 50% or 75% based on our expectation of the number of errors in the financial statements. Due to the high level of errors in 2019/20, our initial read through of the draft 2020/21 accounts identifying errors, and the significant changeover of staff, we have set performance materiality at 50%, as opposed to 75%.

Audit differences
£55k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £55,943. Other misstatements identified will be communicated to the extent that they merit the attention of the Governance and Audit Committee.

Initial audit findings for 2020/21

We received the draft 2020/21 accounts for audit on 24 November 2022. We communicated our planned audit visit timing for the 2020/21 audit well in advance of the accounts being prepared and asked management to meet this deadline for having all working papers ready for day one of the audit on 9 January 2023. We did not receive all working papers in line with this deadline and those that we have received are not of sufficient quality for us to undertake audit testing as needed. The overall quality of the working papers is poor and we have returned a large number of them to officers as they do not reconcile to the draft accounts. In addition, due to officer changes it is difficult for the current finance team to locate supporting evidence and answer queries about working papers and balances.

The overall quality of the draft 2020/21 accounts submitted for audit is also poor. Based on the Partner and Senior Manager read through of the accounts we have identified a number of errors within them. This includes inconsistencies in the figures and narrative, notes not casting and disclosures being incorrect for the Council. The accounts should have been subject to quality review before submission to audit.

The combination of the accounts and working papers issues has resulted in issues arising with the audit from day one and additional procedures needing to be undertaken. We will update you on progress of the audit at the February committee meeting.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Corby Borough Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

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

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

Value for Money Conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

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

Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at the same time as we issue the audit opinion on the financial statements.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively.

What will we do?

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we consider where these risk may manifest themselves and identify separate fraud risks as necessary below.

Our response to significant risks

*Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure **

Financial statement impact

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What will we do?

Our approach will focus on:

- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- We will extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks

Valuation of Investment Property (IP)

Financial statement impact

If investment Property were incorrectly valued this would have the impact of understating expenditure.

What is the risk?

Investment Property (IP) is a significant balance in the Council's Balance Sheet. The valuation of IP is complex and subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty.

The risk is heightened for traditional retail assets due to market difficulties such as reduced consumer confidence and competition from internet based retailers with lower cost bases. This has led to a large number of retailers, including well known names, closing stores, going into administration or otherwise seeking to reduce their rental costs by renegotiating existing leases, perhaps by way of a Creditors Voluntary Arrangements. These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers or owned by them.

What will we do?

We will:

- consider the competence, capability and objectivity of the Council's valuers (Wilks, Head & Eve);
- consider the scope of valuers' work;
- ensure IP has been annually revalued as required by the Code;
- consider if there are any specific changes to assets that should have been communicated to the valuer(s);
- sample test key inputs used by the valuer(s) when producing valuations;
- consider the results of the valuers' work;
- challenge the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);
- test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- test a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and
- review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.

Our response to significant risks

Valuation of Council Dwellings

What is the risk?

Council Dwellings with a total carrying value of £296 million has undergone a full revaluation during the year. This led to a significant movement of £46 million.

Due to the significance of the value and the increase as a result of the full revaluation, we have identified the valuation of this category of asset as a significant risk.

What will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property:

- Consider the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation;
- Test a sample of beacon properties to ensure that the value is in line with market value;
- Review assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;
- Consider changes to the useful economic lives as a result of the most recent valuation;
- Test accounting entries, ensuring these have been correctly processed in the financial statements including testing the classification of assets; and
- We will consider if the valuation movements in the current year are indicative of errors in the prior year.

Financial statement impact

Misstatements that occur in relation to the valuation of market based property assets could affect the balance sheet by materially misstating the valuation of these assets; and the income and expenditure account via the impact on depreciation charges.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Valuation of PPE The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgements about key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: ▪ Consider the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▪ Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists as necessary – for example, significant or unusual movements in valuation, difficult to value specialist assets, or investments in areas of the economy under stress such as retail; ▪ Sample testing key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre); ▪ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▪ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▪ Consider changes to useful economic lives as a result of the most recent valuation; and ▪ Test accounting entries have been correctly processed in the financial statements.
Recognition of grant income associated with Covid 19 The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position. We will consider the elements of grant income, their susceptibility to manipulation and the appropriate audit response.	We will consider the Council's judgement on material grants received in relation to whether it is acting as: ▪ An Agent, where it has determined that it is acting as an intermediary; or ▪ A Principal, where the Council has determined that it is acting on its own behalf.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk?	What will we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Northamptonshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▪ Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Corby Borough Council; ▪ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▪ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

Auditing accounting estimates

ISA 540 (Revised) -Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.

We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.

We may make more focused requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include
The methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.

You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for Money

Background

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

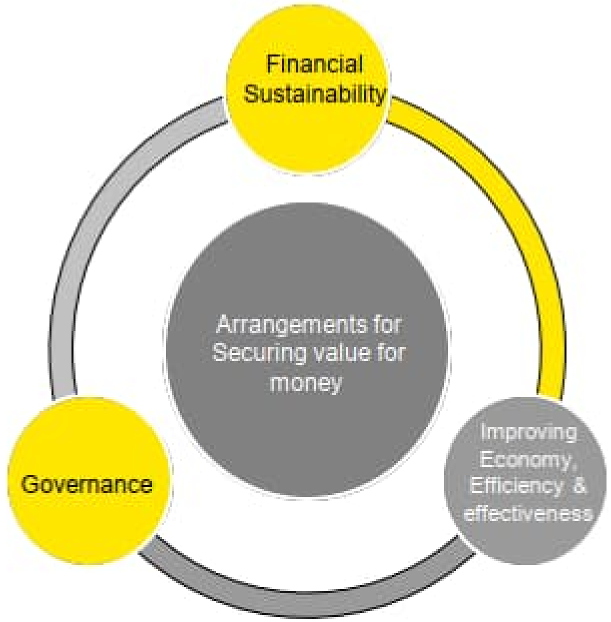
Auditor responsibilities under the new Code

On 1 April 2020, the NAO's new Code of Audit Practice (the 2020 Code) came into force. This sets out how local auditors are expected to approach and report their work on value for money (VFM) arrangements under the new Code and applies to audits of 2020/21 financial statements onwards. Under the 2020 Code, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- *Financial Sustainability* – How the Council plans and manages its resources to ensure it can continue to deliver its services
- *Governance* – How the Council ensures that it makes informed decisions and properly manages its risks
- *Improving economy, efficiency and effectiveness* - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identify risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes –or could reasonably be expected to expose –the Council to significant financial loss or risk;
- Leads to –or could reasonably be expected to lead to –significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to –or could reasonably be expected to lead to –unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable),or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Governance Committee and council.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements. However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report.

The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to commence our detailed VFM planning. However, our initial risk assessment has resulted in the identification of a risk of significant weakness noted below.

Significant Risk/Weakness

What is the Significant Value for Money Risk?
During the course of the audit we identified that management had not undertaken a bank reconciliation throughout 2019/20 and 2020/21 financial year. As the bank reconciliation is a fundamental part of the control framework, and the lack of a bank reconciliation could have undermined any financial reporting, we consider that the Council did not have in place proper arrangements to make informed decisions.

What arrangements does this risk affect?
- Governance
- Improving economy, efficiency and effectiveness

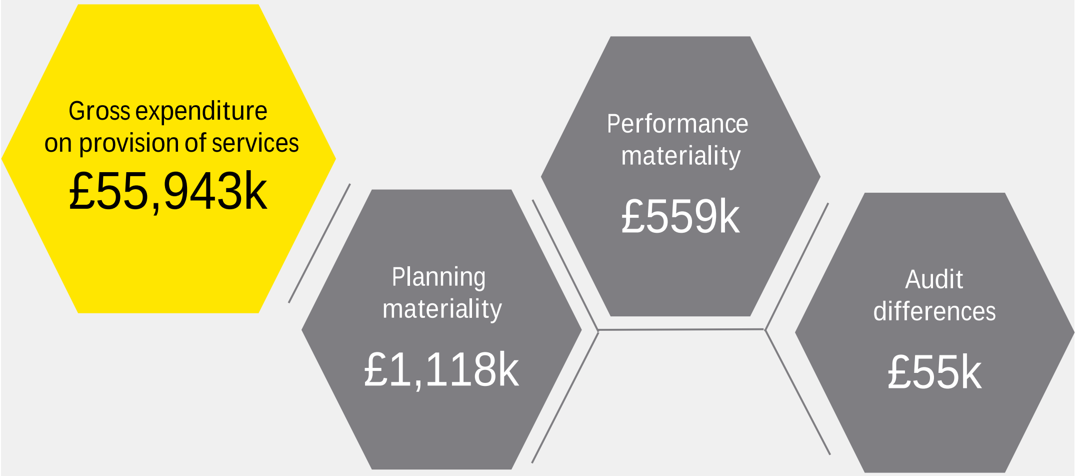
What we will do
We will:
- roll forward the work and conclusions formed as part of our review of the 2019/20 financial statements and update this based on the latest information received; and
- consider the adequacy of managements plan to address the matter and action taken since the prior year, ensuring sufficient disclosure is made with the Council's annual governance statement.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £1,118k. This represents 2% of the Council's gross expenditure on provision of services in the draft 2020/21 financial statements. It will be reassessed throughout the audit process.



We request that the Governance and Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £559k which represents 50% of planning materiality. The lower level of the threshold has been selected based on the high level of error in the 2019/20 accounts, our read through of the draft 2020/21 accounts identifying errors before any audit testing has begun and the significant change in staff in the finance team.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Governance and Audit Committee, or are important from a qualitative perspective.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council'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).

We also 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
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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 Governance and Audit Committee.

Internal audit:
We will regularly meet with the Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Pension Specialist	Elizabeth Jackson Partner
EY Actuaries	Ian Young Senior Manager
Property Valuer	Ciaran Tumulty Lead Senior

Working together with the Council

We are working together with officers to establish strong communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible as we are aware that the Council does not hold all information in the format that we require it to be presented for audit.

Audit team

Audit team and the use of specialists

The core audit team is lead by Elizabeth Jackson, Partner and Ian Young as Senior Manager.

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 area where either EY or third party specialists provide input for the current year audit is:

Area	*Specialists*
Pensions disclosures	Management specialist – Actuary - Hymans Robertson Auditor Specialist - EY Actuaries
Property valuation	Management specialist – Wilks Head & Eve Auditor Specialist - EY Real Estate Team

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 Council's business 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 specialist to establish whether the source data 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; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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 the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

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

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we have not undertaken any non-audit work, therefore no additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2021
Ernst & Young (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 in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2022 and can be found here: EY UK 2022 Transparency Report | EY UK

UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it applied after 15 March 2020. The Ethical Standard has a general prohibition on the provision of non-audit services by the auditor (and its network) which applies to UK Public Interest Entities (PIEs). A narrow list of permitted services continues to be allowed. Note that currently the Council does not currently fall under the definition of a PIE.

Summary of key points

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering was applied for otherwise prohibited non-audit services that were open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit and Governance Committee where the audit fee might compromise perceived independence and the appropriate safeguards
- A requirement to report to the Audit and Governance Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019.

We do not currently provide any non-audit services which would be prohibited under the new standard.

08 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2020/21	*Scale fee 2020/21*	*Final Fee 2019/20*
	£'s	*£'s*	*£'s*
Total Fee – Scale Fee	39,692	39,692	39,692
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page)	To be confirmed	To be confirmed	To be confirmed
Changes in scope	To be confirmed	-	To be confirmed
Total audit fees	To be confirmed	To be confirmed	To be confirmed

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council 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 Council in advance.

We do anticipate scale fee variations for the 2020/21 audit to respond to the significant and inherent risks, areas of focus on our audit of the Council's financial statements as well as our work on value for money arrangements as set out in this report. We have also communicated to management the need for additional fee due to the level of error identified in the draft accounts based on our read through of the accounts and the poor quality working papers provided for audit.

We will report our proposed variations to officers and the Governance and Audit Committee at the conclusion of our 2020/21 audit and before we submit to PSAA for approval and determination.

Appendix B

Required communications with the Governance and Audit Committee

We have detailed the communications that we must provide to the Governance and Audit Committee.

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	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.	Audit Results Report

Appendix B

Required communications with the Governance and Audit Committee (continued)

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner'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 Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report
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 Governance and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit Committee may be aware of	Audit Results Report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report

Required communications with the Governance and Audit Committee (continued)

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
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	Audit Results Report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit Results Report
Fraud	• Enquiries of the Governance and Audit Committee 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	Audit Results Report
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	Audit Results Report

Appendix B

Required communications with the Governance and Audit Committee (continued)

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Plan Audit Results Report