New Forest District Council

Audit planning report

Year ended 31 March 2021

June 2021

EY

Building a better working world

Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

22nd June 2021

Dear 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 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 Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with 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 Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 2nd July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

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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 New Forest District 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 New Forest District 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 New Forest District 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 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 in risk or focus	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. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition – inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings Inc. Investment Properties (FV/EUV)	Significant risk	No change in risk or focus	Property, Plant and Equipment Land and Buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.
New Financial Ledger	Significant risk	New Area of Focus	Under ISA 315, a change in the IT environment may indicate a risk of material misstatement. From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements will be prepared using data taken from the new system.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Compensation Scheme for Sales, Fees and Charges	Fraud Risk	New Area of Focus	As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.
Valuation of Land and Buildings (DRC)	Inherent risk	No change in risk or focus.	Land and Buildings valued using Depreciated Replacement Cost (DRC) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Valuation of Council Dwellings	Inherent risk	No change in risk or focus	The fair value of Council Dwellings represents a significant balance in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	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 Hampshire County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset 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.
Accounting for Covid-19 Related Grant Income	Inherent Risk	New Area of Focus	The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these grants appropriately, taking into account any associated restrictions and conditions.
Accounting for the Furlough Scheme	Inherent Risk	New Area of Focus	The Council furloughed a number of leisure centre staff during the year. There is a need for the Council to ensure that it has recognised and accounted for furlough scheme income appropriately, taking into account any associated restrictions and conditions.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality	Performance materiality	Audit differences
£2,454k	£1,840k	£123k

Materiality has been set at £2,454k, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality has been set at £1,840k, which represents 75% of materiality.

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, housing revenue account and collection fund) greater than £123k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Group Accounting

We understand that the Council will be producing group accounts for the first time this year. We currently have insufficient information to be able to assess the full impact on our scope, including on materiality at the group level.

We anticipate undertaking a direct testing approach on the material balances of the Council's consolidated subsidiary, and will also need to undertake procedures to ensure the correct consolidation.

We will provide an update to the Audit Committee when we are able to more completely understand the impact on our audit and on our audit approach.

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 New Forest District 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 commentary on the Council's arrangements to secure value for money.

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.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery as per Section 7 of this plan.

Due to a backlog of work, predominantly as a result of Covid-19 impacting our 2019/20 audits, we have not been able to schedule an efficient high quality audit to meet the 30 September date noted in the Accounts and Audit (Amendment) Regulations 2021.

We have therefore agreed with the Council that our year-end execution work will take place in November 2021.

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?	What will we do?
	As identified in ISA (UK) 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.	• 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 risks may manifest themselves and identify separate fraud risks as necessary below.

Our response to significant risks (continued)

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.

Risk of fraud in revenue and expenditure 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 assess that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure could then be inappropriately funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, it could also inappropriately be funded by capital receipts or grants, that should not be used to support revenue.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.

What will we do?

Our approach will focus on:

- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that will support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- Reviewing the appropriateness of items classified as REFCUS.
- We will extend our testing 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 or reclassified as REFCUS.

Our response to significant risks (continued)

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.

Valuation of Land and Buildings (FV/EUV) and Investment Properties

Financial statement impact

If land and buildings or investment property are incorrectly valued this could have the impact of understating expenditure

What is the risk?

Property, Plant and Equipment land and buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.

What will we do?

We will:

- Consider the competence, capability and objectivity of the Council's valuers;
- Consider the scope of valuers' work;
- Ensure Property has been revalued with sufficient frequent not to be materially misstated 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;
- Test a sample of assets revalued in year to:
  - 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;
- 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 (continued)

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.

New Financial Ledger

Financial statement impact

If data has not been transferred appropriately over to the new ledger, the financial statements as a whole may be materially misstated.

What is the risk?

Under ISA 315, a change in the IT environment may indicate a risk of material misstatement.

From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements will be prepared using data taken from the new system.

We therefore consider there to be a significant risk that the financial statements could be materially misstated if data has not been appropriately transferred from the old system to the new.

What will we do?

We will:

- Perform testing on the opening balances within the new GL, agreeing them to the closing balances of the old system.
- Review any reconciliations that have been performed between the old and the new system by the client.
- Review the work performed by internal audit relating to the system changeover.
- Review the new system to confirm whether it improves accounting practices and reduces the overall likelihood of material misstatements including:
    - Review the system code mapping compared to the prior year
    - Review the training provided to users of the system

Our response to significant risks (continued)

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.

Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges*

Financial statement impact

Inappropriate grant recognition would decrease the net expenditure from the general fund

What is the risk?

As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.

The Council received £1.4m in the 1st payment grant, and therefore, there is the potential this could be materially overstated for the full year's grant.

What will we do?

Our approach will focus on:

- Gain an understanding of the Council's process for completing the grant return to Central Government.
- Assess whether those returns appropriately follow the guidance.
- Confirm whether the return is supported by relevant and appropriate evidence.
- Ensure the grant is appropriately accounted for.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings (DRC) Land and Buildings valued at Depreciated Replacement Cost (DRC) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Assets valued at DRC are not as significantly affected by Covid-19 as those assets valued at fair value or existing use value , but there is still a high level of judgement.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans 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. We have also considered 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 2020/21 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,
Valuation of Council Dwellings As with Land and Buildings, the value of Council Dwellings in the Council's accounts are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • Evaluate the application of the Beacon Methodology; and • Test accounting entries have been correctly processed in the financial statements.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	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 Hampshire 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. At 31 March 2020 this totalled £99,470k. 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to New Forest District Council; • Assess the work of the Pension Fund actuary (Aon Hewitt) 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

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
New central government grants and other Covid-19 funding streams Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	On a sample of the grant and funding population we will: • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; and • Assess whether the accounting appropriately follows those judgements. • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.
Furlough Scheme The Government announced the Coronavirus Job Retention Scheme (CJRS) on 20 March 2020 and opened this to claims on 20 April 2020 in response to the COVID-19 pandemic. During 2020/21, the legislation and associated guidance relating to the scheme has changed and therefore the amount of income will vary dependent on the claim periods. These changes as well as the inherent complexity of the scheme increases the likelihood of misstatement. In the UK, the government has not imposed any additional audit or assurance requirements in relation to government support schemes. We do, however, have existing responsibilities in relation to fraud and non-compliance with laws and regulations, which would apply to the furlough scheme.	We will: • Obtain copies of the company's furlough claim submissions and the calculations supporting the claims and whether any specialists have been involved in preparation of the claim • Understand where the data used within the furlough claims comes from • Confirm the employees were eligible for furlough • Create an expectation of what we believe the furlough figure should be in the accounts and compare this to the actual figure

03 Value for Money Risks

Value for Money

The Council's responsibility for value for money

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.

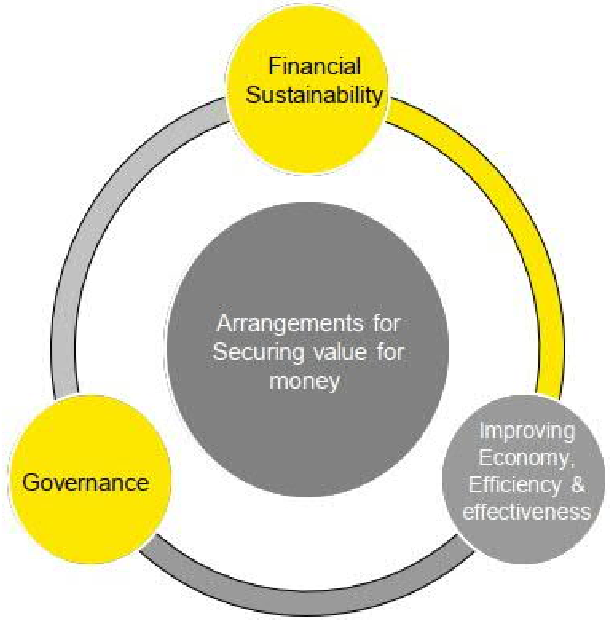
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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

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 are no longer overall evaluation criteria on which we need to conclude. 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; 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.



Value for Money

Planning and Identifying VFM 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, 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 committee.

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 20/21 VFM Planning

We have yet to complete our detailed VFM planning, but have not identified any significant VFM risks at this point in time.
If we identify a significant risk, we will bring this to the attention of the Audit Committee

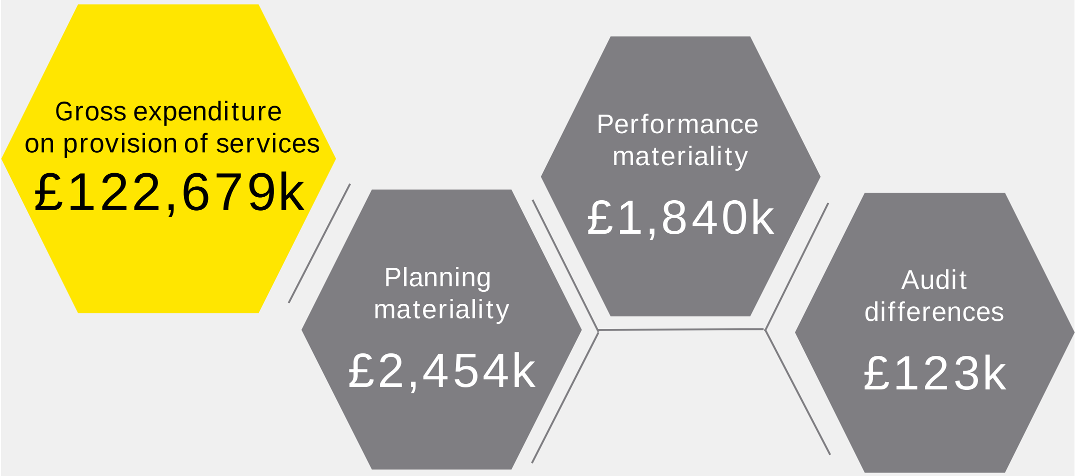
04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £2,454k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process, and updated based on the draft 2020/21 accounts.



We request that the 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 £1,840k which represents 75% of planning materiality.

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, housing revenue account 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 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 Audit Committee.

Internal audit:
We will regularly meet with the Head of Internal Audit, 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 and Use of specialists

The Core Audit Team is led by Kevin Suter, Associate Partner and James Stuttaford, Audit 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 areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Authority's internal valuer (Stuart Yeo) EY Specialist – EY Real Estates (EYRE)
Pensions disclosure	Management Specialist – AoN Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY actuaries

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 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

On 3rd June 2021 Janet Dawson, GPS Assurance Leader, communicated to all Audit Committee Chairs on the resourcing and rescheduling of our Local Government Clients. Locally, we have been in contact with the S151 Officer to confirm how this impacts on the year end audit visit. We have agreed to reschedule our visit from July to November 2021, with the audit opinion expected to be delivered in December. We thank the finance team for their flexibility in agreeing to the rescheduling.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	March		
Interim audit testing Walkthrough of key systems and processes	April		
	May		
	June		
	July	Audit Committee	Audit Planning Report
	Summer/Autumn		
Year end audit Audit Completion procedures	November		
	December	Audit Committee	Audit Results Report Audit opinions and completion certificates Auditor's Annual Report

08 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 December 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 [note: additional wording should be included in the communication reflecting the client specific situation]	▸ 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 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.

Independence

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 Kevin Suter, 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 those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

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 2020

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 30 June 2020 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the 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.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee	42,721	42,721	42,721
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (1)	19,543		19,543
Revised Proposed Scale Fee	62,624	42,721	62,624
Scale Fee Variation (2, 3)	TBC	0	10,881
Total Audit Fee	TBC	42,721	73,145
Total other non-audit services	0	0	0
Total fees	TBC	42,721	73,145

All fees exclude VAT

(1) As detailed in our 2019/20 annual audit letter we have submitted a proposed rebasing of the scale fee. PSAA are yet to conclude on the rebasing.

(2) As detailed in our 2019/20 annual audit letter we have submitted the 19/20 scale fee variation to the PSAA. This is still subject to agreement with the PSAA.

(3) As noted in the main section of this report we have identified new risks for 20/21, as well as the changing requirements on VfM reporting. The scope will also change if the Council undertakes group accounting. Theses changes will impact on the cost of delivering the 20/21 audit. We are unable to quantify the impact at this time.

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 Authority; and
- ► The Authority 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 Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the 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.	Audit planning report
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
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

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Fraud	• Enquiries of the 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
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 Planning Report 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

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 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 Audit Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report
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	• 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 planning report Audit results report

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.