Cherwell District Council
Audit Planning Report

Year ended 31 March 2021

14 September 2021

Building a better working world

Cherwell District Council
Bodicote House
Bodicote
OXON OX15 4AA

14 September 2021

Dear 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 your auditor. Its purpose is to provide the Accounts, Audit and Risk 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 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 it outlines our planned audit strategy in response to those risks.

Due to the late completion of the 2019/20 audit, this year's 2020/21 audit is being completed in a condensed timeframe, and therefore the Committee meeting on the 22 September will receive this Audit Planning Report alongside the Audit Results Report. This is to get the Council's audit timelines back on track.

This report is intended solely for the information and use of the Accounts, Audit and Risk 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 22 September 2021 as well as to understand whether there are any other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

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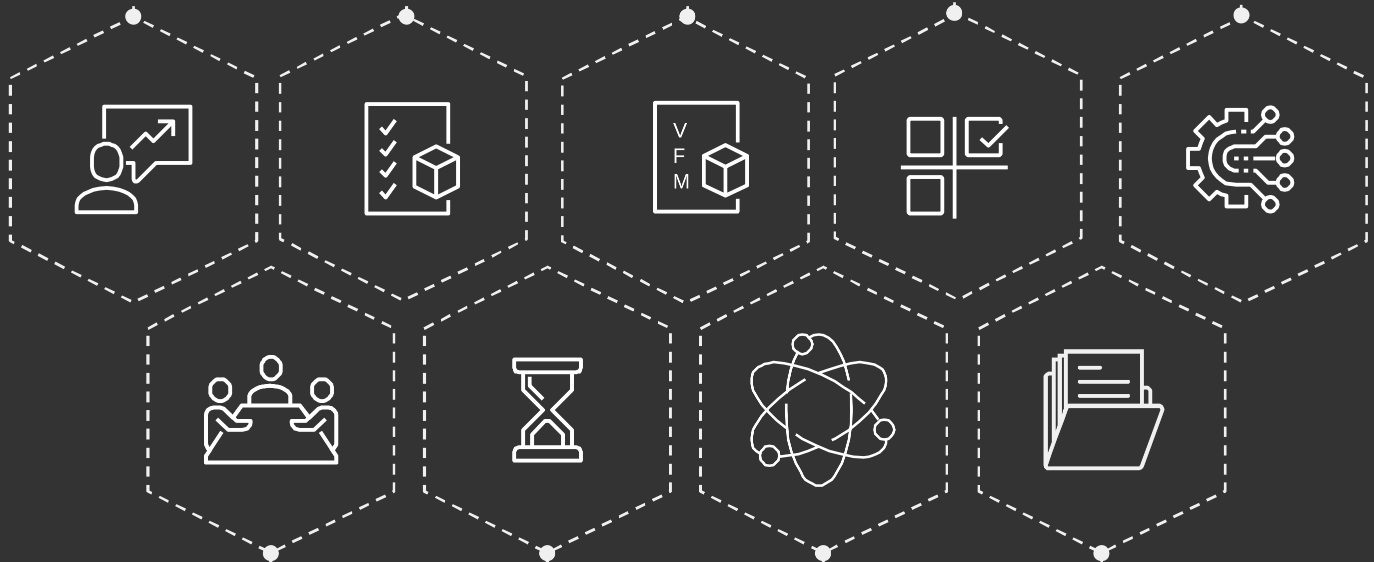

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities 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 Accounts, Audit and Risk Committee and management of Cherwell District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Accounts, Audit and Risk Committee and management of Cherwell 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 Accounts, Audit and Risk Committee and management of Cherwell 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 Accounts, Audit and Risk 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	Significant risk	No change in risk or focus	Linking to our fraud risk below we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the Council's capital programme. It is likely that this risk is limited to the cost of sales charged to the profit and loss account by the Council's wholly owned subsidiary company, Graven Hill Village Development Company Limited.
Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council may manifest itself in the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings and Investment Property	Significant risk	Change in risk or focus	The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties around valuations in 2021 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as at 31 March 2021.
Accounting for Covid-19 grants	Inherent risk	New area of focus	The Authority received a series of grants from UK central government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a new and significant development for the Council.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
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 Northamptonshire Pension Fund. 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 Northamptonshire Pension Fund 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. For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues arising from the Goodwin and McCloud cases.
Group Boundary Assessment and Consideration of Subsidiary Entities	Inherent risk	No change in risk or focus	The Council has 3 wholly owned subsidiary companies and also holds an interest in a joint company with South Northamptonshire Council to process housing benefit claims across both Councils from June 2018. Critchleys provided accounting and external auditing services to both the Graven Hill companies and to Crown House. In 2019/20 our work in this area was additional scope from the scale fee set, and necessitated extra audit work. This necessitated more work for the external audit team as we must review the work of component auditors in appropriate detail to gain assurance for our purposes. It was also necessary for us to postpone giving our opinion on the Council's statements until this further work had been carried out. The 2020/21 audit scale fee also excludes group considerations but we will need to carry out extra work in the same way.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Going concern disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Authority will prepare its accounts on a going concern basis as there is ongoing service provision from the successor body. However, the current and future uncertainty as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we request that management provide a documented consideration to support their assertion regarding the going concern basis.

Overview of our 2020/21 audit strategy

Materiality. We calculated materiality at the planning stage using the 2019-20 financial statements (see figures in brackets) but as we will now be performing a single-visit audit, we have updated it using figures from the draft 2020-21 statements.

Planning materiality
£2,429k

Materiality for the group has been set at £2,429K (£2,119K), which represents 2% (PY 2%) of the prior year gross revenue expenditure. This comprises of gross expenditure on the provision of services, other operating expenditure and financing and investment expenditure.

Performance materiality
£1,822k

Performance materiality has been set at £1,822K (£1,589K), which represents 75% (PY 75%) of planning materiality.

Audit differences
121.5k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £121.5K (£106K). This represents 5% of Planning Materiality (PY 5%). Other misstatements identified will be communicated to the extent that they merit the attention of the Accounts, Audit and Risk Committee.

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 Cherwell 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 against specified reporting criteria (see Section 03) on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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 must 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. The extent of our procedures will depend on the materiality of the Council's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to assess independently the risks of providing an audit opinion, and to undertake appropriate procedures in response. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focus on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors affecting the value for money conclusion. In Section 09 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.

02 Audit risks

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.

Misstatements due to fraud or error*

Financial statement impact

Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.

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.

We identify and respond to this risk on every audit engagement.

What will we do?

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.
- Perform detailed review of work done by Critchleys on the sales during the year at the Council's wholly owned subsidiary company, Graven Hill Village Development Company Limited

Perform 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.

We will utilise our data analytics capabilities to assist with our work.

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.

Valuation of Land and Buildings – Property, Plant and Equipment (PPE) and Investment Property (IP)

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of PPE and IP (31 March 2020: £133.6 m and £61.1m, respectively).

The equivalent figures in the draft 20/21 financial statements are £162.5m and £45.3m.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) 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.

Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021. The significant risk is therefore specific to the valuation assertion.

What will we do?

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 test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). Our sample will include the Castle Quay shopping centre and we will liaise with our specialists in EY Real Estates as appropriate in the work done.

► 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 and any significant changes notified 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;

► Consider the potential impact of Covid-19 on valuation uncertainties; and

► Test accounting entries have been correctly processed in the financial statements.

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.

Inappropriate capitalisation of revenue expenditure due to fraud or error*

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.

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.

► 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.

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 has 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 distribute to other bodies. The Council needs to review each of these grants to establish how they should be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also 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; • Assess whether the accounting appropriately follows those judgements; and • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

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 Northamptonshire Pension Fund 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 £72.8 million. The draft 20/21 financial statements show a figure of £95.7 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary of the Pension Fund. 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.	• Liaise with the auditors of Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cherwell District Council; • Assess the work of the Pension Fund actuary, Hymans Robertson, 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; • Consider any updated information in respect of the impact of national issues including Goodwin and McCloud; and • Review and test the accounting entries and disclosures made within the Council's financial statements for IAS19.

Other areas of audit focus (cont.)

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 area of focus?	What will we do?
Group Boundary Assessment The Council now has three wholly owned subsidiary companies and also holds an interest in a joint company with South Northamptonshire Council to process housing benefit claims across both Councils from June 2018. As in previous years, our work in this area is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's audit fee. We have included an estimate of the likely additional fee in relation to this matter; this is reflected in Appendix A of this report.	We will: • Review the Council's assessment of its group boundary • Test the consolidation of entries relating to these subsidiary entities into the Council's Group Statement of Accounts • Issue instructions to the auditors of the three component entities as appropriate.

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?
Disclosures on Going Concern There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, the Authority needs to ensure that its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any uncertainties it has identified. We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19.	• Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate; • Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts; • Review the financial modelling and forecasts prepared by the Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion; • Ensure that an appropriate going concern disclosure has been made within the financial statements; and • Considered the impact on our audit report and comply with EY consultation requirements, if this is determined to be appropriate.

03 Value for Money risks

Value for Money

The Authority's responsibilities for value for money (VFM)

The Authority must maintain an effective system of internal controls 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 Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing this statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and taking into account 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's responsibilities under the new Code

Under the 2020 Code of Audit Practice we must still consider whether the Authority has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer an overall evaluation criterion on which we need to conclude. Instead the 2020 Code requires auditors to design their work so as to get enough assurance to report to the Authority a commentary against specified reporting criteria (see below) on its arrangements 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 Authority plans and manages its resources to ensure it can continue to deliver its services;
• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence for us to document our evaluation of the Authority's Arrangements. This is so that we can draft a commentary under the three reporting criteria. It 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 for the overall criterion.

In considering the Authority's arrangements, we must consider:
• The Authority's governance statement
• Evidence that the Authority'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 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 assessing what constitutes a significant weakness, and how much extra audit work is needed to respond to the risk of a significant weakness, is a matter of professional judgement.

Value for Money

Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:
- Exposes – or could reasonably be expected to expose – the Authority 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 Authority'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 consider:
- The scale of the issue in relation to the size of the Authority;
- 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 Authority's reported performance;
- Whether the issue has been identified by the Authority'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 Authority has had to respond to the issue.

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 to undertake additional procedures as necessary. This includes challenge of management's assumptions where necessary. We are required to report our planned procedures to the Accounts, Audit and Risk Committee.

Reporting on VFM

As well as the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness, the 2020 Code has the same requirement as the 2015 Code, 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 attention of the Authority or the wider public. This should include details of any audit recommendations and follow-up of previous recommendations, along with our view as to whether they have been implemented. satisfactorily.

Status of our 2020/21 VFM planning

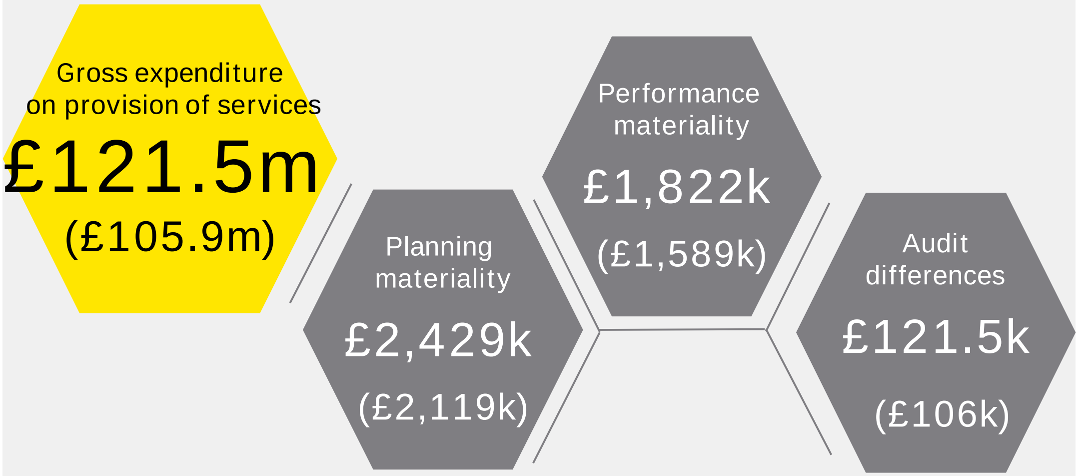
We have yet to finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has for financial sustainability in the light of the impact of Covid-19. At this stage we have not identified any risks of significant weaknesses in arrangements. We will continue to update the Accounts, Audit and Risk Committee on the outcome of our VFM planning, any changes to our risk assessment, and our planned response to any identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality –Cherwell District Council Group

For 2020/21 audit purposes, we are using materiality derived from the draft financial statement, which was set at £2,429K. This represents 2% of the prior year gross revenue expenditure on provision of services. It will be reassessed during the audit process (at the planning stage we used materiality derived from the audited 2019/20 statements, see figures in brackets). We have provided supplemental information about audit materiality in Appendix C.



We request that the Accounts, Audit and Risk 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 for the Group at £1,822k, 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 and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

Other uncorrected misstatements, such as reclassifications and misstatements in the cash flow 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 and accounts 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 its arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period, 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 to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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 that 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 financial data, in particular journal entries. These tools:
- Help to 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 Accounts, Audit and Risk Committee.

Internal audit:
As in prior years, we will 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 issues are raised that could have an impact on the year-end financial statements.

06 Audit team

Audit team

Audit team structure:

EY Pension Team
EY Real Estate Team
EY Data Analytics Team

Maria Grindley* Associate Partner
Susan Gill Manager
Charmaine Cruz Lead Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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	EYRE Real Estate Team
Pensions disclosure	EY Pension 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 Audit timeline

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 Accounts, Audit and Risk Committee and we will discuss them with the Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	May-August 2021	Accounts, Audit and Risk Committee	Audit Update to Committee in July, Draft Audit Planning Report to following Committee in September
Year end audit	July-September 2021	Accounts, Audit and Risk Committee	Draft Audit Results Report
Audit Completion procedures	September 2021	Accounts, Audit and Risk Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter to follow soon after the sign off

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 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.	▸ 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/additional 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; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ 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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; 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.

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 Maria Grindley, 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

When the ratio of non-audit fees to audit fees exceeds 1:1, we must discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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 within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm must publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020

09 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.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Base Audit Fee – Code work (See Note 1)	40,138	40,138
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	43,423
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	31,054
Impact of audit slippage and rescheduling	N/A	14,911
Group considerations	12,000	12,022
Total audit fees	TBC	141,548
Review of Grants – Housing Benefit	TBC	29,070
Total fees	TBC	170,618

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management and referred to PSAA for consideration.

All fees exclude VAT

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.

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 those charged with governance

We have detailed the communications that we must provide to the Accounts, Audit and Risk Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Accounts, Audit and Risk 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

Appendix B

Required communications (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	• Asking the Accounts, Audit and Risk 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

Required communications (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 Planning Report and 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 • Asking the Accounts, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report

Appendix B

Required communications (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	• 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

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 Accounts, Audit and Risk Committee reporting appropriately addresses matters communicated by us to the 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.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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