Great Yarmouth Borough Council

Audit Planning Report

Year ended 31 March 2020

September 2020

Building a better working world

Audit and Risk Committee Members

Great Yarmouth Borough Council
Hall Plain
Great Yarmouth
NR30 2QF

8 September 2020

Dear Audit and Risk Committee Members

2019/20 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 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 Audit 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. Our planning procedures remain ongoing; we will inform the Audit and Risk Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the Committee.

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 21 September 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

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

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 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 risk identification for the upcoming audit and any changes in risks identified in the current year.

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.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council's revised capital programme for 2019/20 was £42 million and is therefore significant. Although we note from the 2020/21 budget report presented to full Council in February 2020 that the forecast spend was only £13 million, with the majority of the revised budget being rolled forward to 2020/21, the level of capital spend is still highly material. Therefore, we have identified this as a significant fraud risk. We also consider this risk to manifest itself through inappropriate classification of expenditure as revenue expenditure funded from capital under statute (REFCUS). However as REFCUS in 2019/20 is only £1.1 million and therefore not material we have not identified this as an area of significant risk for 2019/20.
Investment property valuations	Significant risk	New focus this year	The Council's investment property totals £51.95 million as at 31 March 2020 (per the draft Financial Statements) which represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. Covid-19 is expected to have an impact on valuation for properties measured at fair value (i.e. investment properties) since rental income may fall as tenants' potentially default on their rents and seek to negotiate rent reductions as they can no longer trade effectively. There is a therefore a risk that investment property may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Higher 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 pension fund administered by the Council. The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. At 31 March 2020 this totalled £61.2 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. In addition, every three years, a formal valuation of the whole fund is carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund. The IAS19 report for 2019/20 will reflect the updated membership numbers provided for this triennial valuation. We will therefore need to seek additional assurances from the Pension Fund auditor over this data. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Land and buildings valuation	Higher inherent risk	Change in risk or focus	Land and buildings represent significant balances in the Council's accounts, totalling £304 million as at 31 March 2020. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. The valuation of land and buildings at 31 March 2020 is also likely to be impacted by Covid-19, with valuers disclosing a material uncertainty in relation to their year end valuations. The Council will need to consider the impact of this material uncertainty on the land and building balances in their accounts as well as in relation to their disclosures relating to estimation uncertainty and key judgements.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Group accounts preparation	Higher inherent risk	No change in risk or focus	The Council produced group accounts consolidating the wholly owned subsidiary, Equinox Enterprises Ltd, for the first time in 2018/19 as the subsidiary is material to the Financial Statements. Our audit work identified a number of misstatements and amendments were required to the group accounts. We therefore consider that there is a risk of misstatement in the 2019/20 accounts. In addition, the Council needs to undertake an assessment of group boundaries in relation to is investments in two limited companies with which it traded in 2019/20 (Great Yarmouth Borough Services and Great Yarmouth Norse) and any other companies in which it has an interest to establish whether it had control of the arrangements or exerted significant influence over these investees and whether they are material for the Group in 2019/20.
Debtors and creditors – accuracy of balances in the Balance Sheet	Higher inherent risk	New area of focus this year	Our audit testing in 2018/19 identified a number of errors in the accuracy of the debtors and creditors balances reported in the Financial Statements. Due to the delayed timing of the 2018/19 audit and the preparation of 2019/20 Financial Statements shortly after the 2018/19 audit was concluded there is a risk that a similar level and type of errors will arise again in 2019/20. We have agreed to delay auditing these balances in 2019/20 until a thorough and robust review of the debtor and creditor balances and supporting working papers has been undertaken by finance officers. The increased risk for these balances will result in higher levels of testing for key items and representative samples.
Accuracy of the Council and Group Cashflow Statement	Higher inherent risk	New area of focus this year	Our audit work for the Council and Group Cashflow Statement identified a number of errors and inaccuracies which were reported in our 2018/19 Audit Results Report. There is a risk that similar errors will be present in the 2019/20 Cashflow Statements due to the delayed conclusion of the 2018/19 audit and timing of the draft 2019/20 Financial Statements production shortly after the conclusion of the 2018/19 audit.

Overview of our 2019/20 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going concern assessment and disclosures	Higher inherent risk	New area of focus this year	Covid-19 has created a number of financial pressures throughout Local Government and is creating financial stress. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.
Covid-19 impacts	Higher inherent risk	New Risk for 2019/20	The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. The financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Within this Plan, we have identified those areas of the financial statements which we have currently identified as being the main areas impacted by Covid-9. However we recognise that due to the uncertainty about the duration and extent of disruption, there may be other risks which emerge during the audit process. We have included details of some of the potential areas in this Plan and will update the Audit Committee if we identify further areas.

Overview of our 2019/20 audit strategy

Materiality

We set materiality for both the Council and Group. We have reported the Council materiality here as this is the lower of the two materiality levels and therefore the level to which we will perform our audit procedures. Group materiality levels are reported in Section 4 of this report.

Planning materiality

£1.54m

Materiality for the Council has been set at £1.54 million and Group materiality has been set at £1.58 million, which represents 2% of the gross expenditure on provision of services in the draft 2019/20 accounts.

Performance materiality

£0.77m

Performance materiality for the Council has been set at £0.77 million and Group performance materiality has been set at £0.79 million. Which represents 50% of planning materiality. We have maintained our performance materiality level from the prior year due to the volume and nature of errors identified in the 2018/9 audit.

Audit differences

£77k

We will report all uncorrected misstatements relating to the group primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £77,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Overview of our 2019/20 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 Great Yarmouth Borough Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

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

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

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with 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 pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Great Yarmouth Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

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?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

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What will we do?

We will:

- Identify the risk of fraud during the planning stage of our audit, and keep that assessment under review throughout the duration of our audit;
- Inquire of management about the risks of fraud, and the controls established to mitigate those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls to address the risk of fraud;
- Determine an appropriate strategy to address the identified risks 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, such as bad debt and business rate appeals provision, for evidence of management bias, and
- Evaluating the business rationale for any significant unusual transactions.

In addition to our overall response, we consider where this risk may specifically manifest itself and identify a separate fraud risk below.

Our response to significant risks (continued)

Incorrect capitalisation of revenue expenditure *

Financial statement impact

Misstatements that occur in relation to the risk incorrect capitalisation of revenue expenditure could affect the comprehensive income and expenditure account and the balance sheet by decreasing revenue expenditure and increasing capital expenditure.

Amounts reported in the draft 2019/20 financial statements were:

Capital additions (reported in Note 14): £16.9 million

What is the risk?

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure.

The Council's revised capital programme for 2019/20 was £42 million and is therefore significant. Although we note from the 2020/21 budget report presented to full Council in February 2020 that the forecast spend was only £13 million, with the majority of the revised budget being rolled forward to 2020/21, the level of capital spend is still highly material. Therefore, we have identified this as a significant fraud risk.

We also consider this risk to manifest itself through inappropriate classification of expenditure as revenue expenditure funded from capital under statute (REFCUS). However as REFCUS in 2019/20 is only £1.1 million and therefore not material we have not identified this as an area of significant risk for 2019/20.

What will we do?

We will undertake additional procedures to address the specific risk we have identified, which will include:

- Sample testing additions to property, plant and equipment to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- We will extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we will review unusual journals related to capital expenditure posted around the year-end; for example where the debit is to capital expenditure and the credit to income and expenditure

Our response to significant risks (continued)

Investment property valuation

Financial statement impact

Misstatements that occur in relation to the valuation risk of investment property could affect the comprehensive income and expenditure account and the balance sheet by misstating the fair value of the assets and increase/decrease in valuation in the year.

Amounts reported in the draft 2019/20 financial statements were:

Investment property: £51.95 million

What is the risk?

The Council's investment property totals £51.95 million as at 31 March 2020 (per the draft Financial Statements) which represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

Covid-19 is expected to have an impact on valuation for properties measured at fair value (i.e. investment properties) since rental income may fall as tenants' potentially default on their rents and seek to negotiate rent reductions as they can no longer trade effectively.

There is a therefore a risk that investment property may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

We will undertake additional procedures to address the specific risk we have identified, which will include:

- Assess the classification of the assets and whether the appropriate valuation basis has been applied.
- Identify and obtain evidence to support any material increases or impairments that arise during the year.
- Consider the work performed by the Council's external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Use of our own experts to;
  - Review the methodology and assumptions used by the valuer;
  - Sample test key asset information used by the valuers in performing their valuation
  - Investigate any significant variation.
- Test accounting entries, ensuring these have been correctly processed in the financial statements.
- As we have identified a higher degree of risk in relation to the valuation of investment property assets as at 31 March 2020, we will also consider how the Council's valuer has addressed the impact of Covid-19 in the year-end valuation of this assets and their assessment of any impairment.

Other areas of audit focus

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

What is the risk?	What will we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the pension fund administered by the Council. The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. At 31 March 2020 this totalled £61.2 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. In addition, every three years, a formal valuation of the whole fund is carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund. The IAS19 report for 2019/20 will reflect the updated membership numbers provided for this triennial valuation. We will therefore need to seek additional assurances from the Pension Fund auditor over this data. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▸ Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Great Yarmouth Borough Council; ▸ Assess the work of the Pension Fund actuary 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; ▸ Review Norfolk Pension Fund's draft financial statements and compare the year end asset values with the estimate used by the actuary in producing the Council's IAS 19 report and consider the impact on he Council's pension fund liability and IAS19 disclosures; ▸ Assess the results of the triennial valuation, including the assumptions used and the impact on the Council's pension liability; ▸ Engage early with the Council, and their actuary, to understand any ongoing impact of the McCloud judgement and any new rulings which may impact on the IAS19 liability; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. ▸ Consider the nature and value of level 3 investments held by Norfolk Pension Fund and the proportion of the overall Fund relating to Great Yarmouth in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2020.

Other areas of audit focus

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

What is the risk?	What will we do?
Land and buildings valuation Land and buildings represent significant balances in the Council's accounts, totalling £304 million as at 31 March 2020. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. The valuation of land and buildings at 31 March 2020 is also likely to be impacted by Covid-19, with valuers disclosing a material uncertainty in relation to their year end valuations. The Council will need to consider the impact of this material uncertainty on the land and building balances in their accounts as well as in relation to their disclosures relating to estimation uncertainty and key judgements.	In order to address this risk we will carry out a range of procedures including: ➢ Evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner; ➢ Ensure the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted; ➢ 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 for property, plant and equipment and annually for investment property assets as required by the Code. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ➢ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ➢ Consider changes to useful economic lives as a result of the most recent valuation; and ➢ Test accounting entries have been correctly processed in the financial statements. We will also consider how the Council's valuer has addressed the impact of Covid-19 on the year-end valuation of assets and assessment of impairments and consider whether we need to engage EY valuation specialists to assist the audit team in relation to this assessment

Other areas of audit focus (continued)

What is the risk?	What will we do?
Group accounts preparation The Council produced group accounts consolidating the wholly owned subsidiary, Equinox Enterprises Ltd, for the first time in 2018/19 as the subsidiary is material to the Financial Statements. Our audit work identified a number of misstatements and amendments were required to the group accounts. We therefore consider that there is a risk of misstatement in the 2019/20 accounts. In addition, the Council needs to undertake an assessment of it's investments in two limited companies with which it traded in 2019/20 (Great Yarmouth Borough Services and Great Yarmouth Norse) to establish whether it had control of the arrangements or exerted significant influence over these investees and conclude whether they are material for the Group in 2019/20. The Council needs to be able to evidence that its group boundary assessment considers all relevant investments demonstrate that the exclusion of any investments from the consolidation would not influence the decisions of the reader.	In order to address this risk we will carry out a range of procedures including: ▸ Considering the Council's assessment of how its investments companies should be reflected within its group financial statements and whether the Council's decision to exclude any of its investments could cumulatively or individually influence the decisions of readers; ▸ Considering group wide controls over the consolidation process; ▸ Determining the scope of our work on each component included in the Council's group accounts dependent on the relative size and risk of the component; ▸ Issuing group audit instructions to each component we deem to be significant by size or risk and liaise with those auditors as appropriate; ▸ Determining the competence and independence of each component auditor we wish to rely on; ▸ Determining our level of involvement in the work of each component auditor and the level of review of their working papers; and ▸ Assessing the completeness and accuracy of the consolidation workings and group disclosures.

Other areas of audit focus (continued)

What is the risk?	What will we do?
Debtors and creditors – accuracy of balances	
Our audit testing in 2018/19 identified a number of errors in the accuracy of the debtors and creditors balances reported in the Financial Statements. Due to the delayed timing of the 2018/19 audit and the preparation of 2019/20 Financial Statements shortly after the 2018/19 audit was concluded there is a risk that a similar level and type of errors will arise again in 2019/20. We have agreed to delay auditing these balances in 2019/20 until a thorough and robust review of the debtor and creditor balances and supporting working papers has been undertaken by finance officers..	In order to address this risk we will carry out a range of procedures including: ▸ Reviewing the briefing paper prepared by management to understand how they have prepared the debtors and creditors notes for 2019/20 to reduce the errors identified in the prior year before audit testing begins; ▸ Reviewing the year end reconciliation of the debtors and creditors feeder systems to the General Ledger to ensure completeness of the balances; ▸ Sample testing the debtors and creditors balances at a lower testing threshold, to recognise the increased risk of material misstatement in the Balance Sheet; and ▸ Performing unrecorded liabilities testing to ensure all balances have been identified appropriately post year end and included in the 2019/20 Financial Statements. ▸ Reviewing any unusual items included in debtors and creditors, any manual adjustments outside the trial balance, historic balances that have not moved year on year and the accounting treatment of the Enterprise Zone.
Accuracy of the Council and Group Cashflow Statement	
Our audit work for the Council and Group Cashflow Statement identified a number of errors and inaccuracies which were reported in our 2018/19 Audit Results Report. We encouraged the Council to use the CIPFA toolkit but this was not fully used in 2018/19. There is a risk that similar errors will be present in the 2019/20 Cashflow Statements due to the delayed conclusion of the 2018/19 audit and timing of the draft 2019/20 Financial Statements production shortly after the conclusion of the 2018/19 audit.	In order to address this risk we will carry out a range of procedures including: ▸ Reviewing the entries disclosed in the draft 2019/20 Financial Statements for the Council and Group Cashflow Statements and associated notes against supporting working papers; ▸ Testing the correctness and completeness of intercompany consolidation adjustments in the group cash flow (e.g. financing for one entity if investing for the other) ▸ Testing to ensure consistency between the Council and Group Cashflow Statements and other entries in the draft 2019/02 Financial Statements, for example movement in balances between 2018/19 and 2019/20; and ▸ Ensure that the disclosures are in line with the Code requirements.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Going concern assessment and disclosures Covid-19 has created a number of financial pressures throughout Local Government and is creating financial stress. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	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 future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist. We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; ▸ Sensitivities and stress testing; and ▸ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.

Other areas of audit focus

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. The financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Within this Plan, we have identified those areas of the financial statements which we have currently identified as being the main areas impacted by Covid-9. However we recognise that due to the uncertainty about the duration and extent of disruption, there may be other risks which emerge during the audit process. We have included details of some of the potential areas in this Plan and will update the Audit Committee if we identify further areas.

- **Revenue recognition –** there may be an impact on income collection (council tax and business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to Covid-19.
- **Tangible asset valuations –** there may be impairment of tangible assets such as land and buildings if future service potential is reduced by the economic impact of the virus. The Council may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- **Holiday and sickness pay** – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- **Government support –** any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- **Pension liability valuation -** An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Norfolk Pension Fund (for example private equity investments) where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.
- **Annual Governance Statement –** the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce good quality financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

03 Value for Money Risks

Value for Money

Background

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. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:
"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

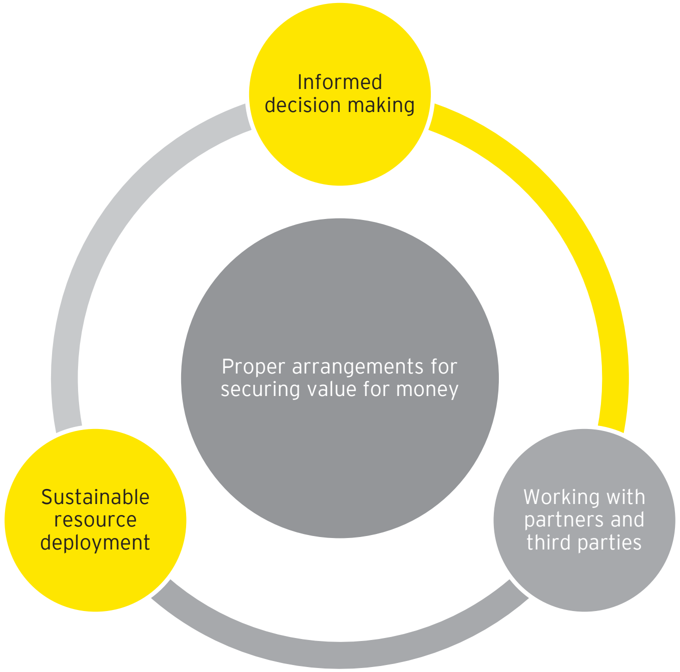
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

We have completed our value for money planning risk assessment for 2019/20. Our risk assessment considered both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. In 2019/20, we have not identified any significant risks. We will continue to assess potential risks to the value for money conclusion as the audit year progresses.

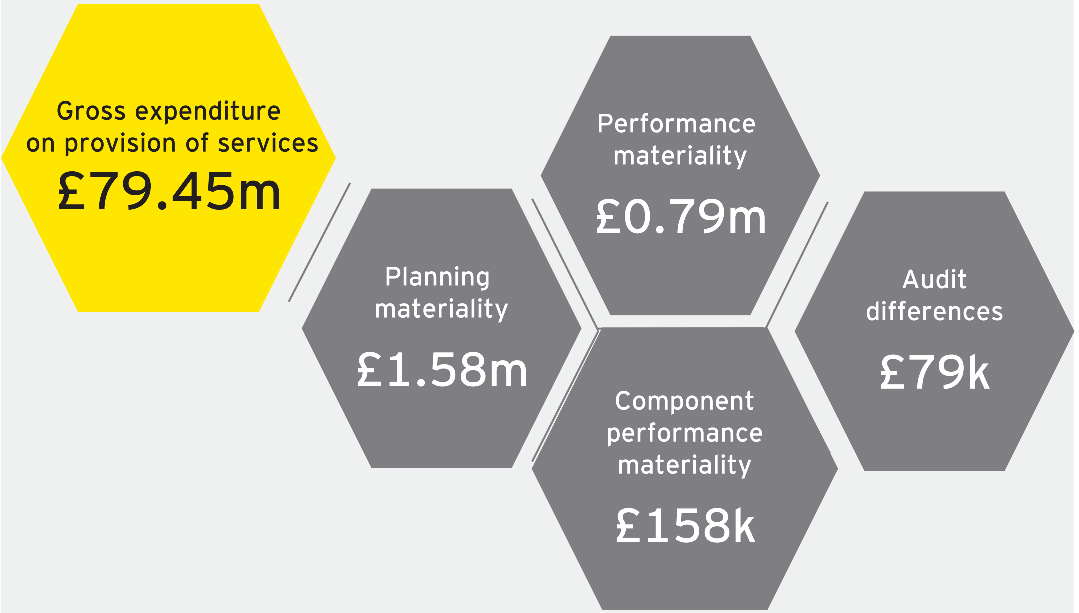


04 Audit materiality

Materiality - Group

Materiality

For planning purposes, Group materiality for 2019/20 has been set at £1.58 million. This represents 2% of the Group gross expenditure on provision of services. It will be reassessed throughout the audit process.



We request that the 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 at £0.79 million which represents 50% of planning materiality. We have maintained our performance materiality level from the prior year due to the volume and nature of errors identified in the 2018/19 audit.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

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.

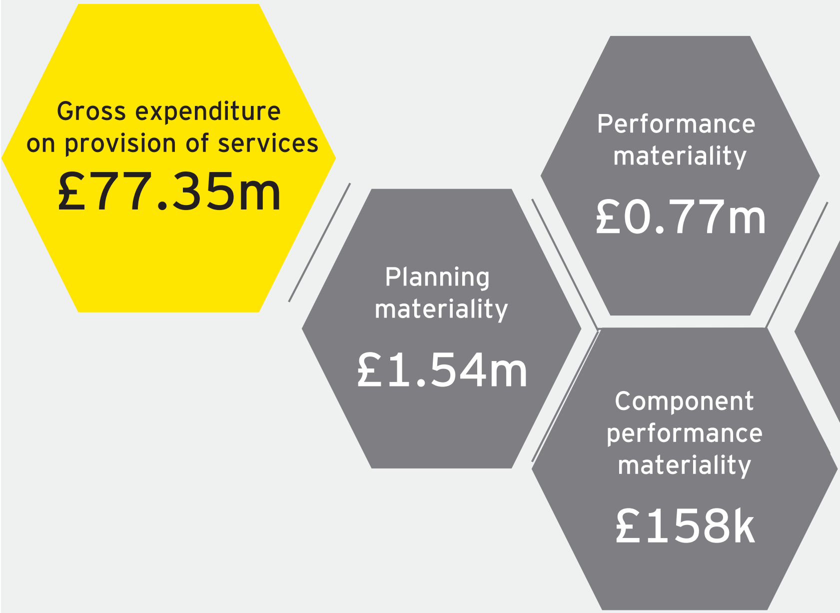
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative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

Specific materiality – We will set a lower level of materiality for the following: Remuneration disclosures (including severance payments, exit packages and termination benefits), related party transactions, members' allowances and audit fees. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Materiality - Council

Materiality

For planning purposes, Council materiality for 2019/20 has been set at £1.54 million. This represents 2% of the Council's gross expenditure on provision of services. It will be reassessed throughout the audit process.



We request that the 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 at £0.77 million which represents 50% of planning materiality. We have maintained our performance materiality level from the prior year due to the volume and nature of errors identified in the 2018/9 audit.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

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.

Specific materiality – We will set a lower level of materiality for the following: Remuneration disclosures (including severance payments, exit packages and termination benefits), related party transactions, members' allowances and audit fees. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

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.

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 2019/20 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.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.

1	A	Full scope audits
1	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit

The below table sets out the scope of our audit. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping					
In scope locations	Scope	Statutory audit performed by EY	Coverage	Current year rationale for scoping	
			Gross Expenditure	Size	Risk
Great Yarmouth Borough Council	Full	Yes	97.4%	Yes	Yes
Equinox Enterprises Limited*	Specific	No	2.6%	No	Yes
TOTAL FULL & SPECIFIC SCOPE			100%		

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

Location name	Planned involvement by the Group team
Equinox Enterprises Limited	We will: ▸ Issue group audit instructions to the component auditor; ▸ Determine the competence and independence of the component auditor whose work we wish to rely on; ▸ Obtain specified forms from the component auditor; and ▸ Review the working papers of the component auditor.

06 Audit team

Audit team

Audit team structure:

Pension Specialist

EY Actuaries

Property Valuer

Debbie Hanson
Associate Partner

Sappho Powell
Manager

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

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

Audit team changes

The key change to our team is that Sappho Powell will take over from Tony Poynton as the Audit Manager when she returns to work in early November 2020. Sappho is a highly experienced manager with extensive knowledge of local government audits.

* Key Audit Partner

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 outlined below. Once we have received the 2019/20 valuation information we will consider whether we require EY valuation specialists to review specific assets and the underlying assumptions related to these valuations:

Area	Specialists
Valuation of Land and Buildings	Management's specialist: Internal valuer – Property and Asset Manager Management's specialist: External valuer – Harvey & Co EY Real Estate
Pensions disclosure	PwC (Consulting Actuary to the National Audit Office) Hymans Robertson (Norfolk Pension Fund Actuary) EY Pensions Advisory

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 2018/19.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	**August/September 2020**	Audit Committee: September 2020	Audit Planning Report
Year end audit	**September/October 2020**		
Audit Completion procedures	November 2020	Audit Committee: November 2020	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	**December 2020**	Audit Committee: date to be confirmed	Annual Audit Letter

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 June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

At the time of writing, the only non audit service we provide is the certification of the Council's housing benefit subsidy claim for an estimated fee of £20,750 (based on the estimate level of additional testing required). 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 2019
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 2019: https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf

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 Housing, 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.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee – Code work	£46,966	46,966
Additional Fee (notes 1 and 2)	TBC	TBC
Non-audit Fee – Housing Subsidy claim	**20,750**	**20,750**
Total Fees	**TBC**	**TBC**

(1) For 2019/20, the scale fee will be impacted by a range of factors, for example the valuations of land and buildings, investment properties and pension obligations which will result in additional work. The impact of Covid-19 will also impact the work that is required to be done.

In addition, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a an illustration, 85 organisations within the PSAA regime had not yet received their 2018/19 audit opinion as at the end of January 2020.

This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. The factors behind this are explained in more detail on the following pages, with a summary of the estimate of the impact of the scale fee set out on this page. This results in an increase in the scale fee of £49,960. We have discussed our estimate and position on audit fees with the Finance Director. The Council have not currently agreed to our variation to the scale fee but understand that we are submitting our fee estimate to PSAA for them to determine for 2019/20

(2) For 2018/19 we have proposed additional fee of between £35k and £40k, relating to additional work we had to undertake. We are currently discussing the variation with officers, and will also need to submit this to PSAA for approval

The issues we have identified at the planning stage which will impact on the fee include:

- Additional risks – financial statements: £9,760
- Group accounts - £4,000
- Costs associated with regulatory compliance changes: £28,700
  (this includes use of experts for areas such as pensions and PPE)
- Costs associated with use of IT and working papers: £7,500

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

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 A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity.

Summary of key factors

1. **Status of sector**. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates**. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment**. Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Required communications with the Audit and Risk Committee

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

Required communications	What is reported?	Our Reporting to you: When and where
Terms of engagement	Confirmation by the 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 Plan – September 2020
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 – November 2020

Required communications with the Audit and Risk Committee (continued)

Required communications	What is reported?	Our Reporting to you: 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 - November 2020
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 - November 2020
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 - November 2020
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 - November 2020

Required communications with the Audit and Risk Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan - September 2020 Audit Results Report – November 2020
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – November 2020
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 – November 2020
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – November 2020
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Results Report – November 2020

Required communications with the Audit and Risk Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2020
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
Fee Reporting	▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit Plan – September 2020 Audit Results Report – November 2020 Annual Audit Letter – December 2020

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

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