

**Report to** Audit committee  
14 July 2020  
**Report of** Chief finance officer  
**Subject** External Audit Plan 2019-20

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**Item**

**8**

### **Purpose**

This report presents the annual external audit plan 2019-20.

### **Recommendation**

To:

- (1) review the attached report from the council's external auditor; and
- (2) consider and agree the approach and scope of the external audit as proposed in the audit plan.

### **Corporate and service priorities**

The report helps to meet all the corporate priorities.

### **Financial implications**

There are no direct financial implications arising from this report.

**Council Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

### **Contact officers**

Hannah Simpson, chief finance officer

01603 212440

**Background documents:** None

## **Report**

### **Introduction**

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2019-20 financial year, for discussion and agreement with the audit committee.

### **Key points to note**

2. The following significant matters are covered in the report:
  - a) The auditors' assessment of the key financial statement risks (section 2 of the audit plan) which relate to misstatements due to fraud or error, as well as the council's implementation of a new financial system in November 2019.
  - b) Section 2 also sets out other areas of audit focus including the impact of Covid-19 and going concern assessment; production of group accounts; and assets valuations (property and pension assets).
  - c) The auditors' assessment of the key value for money risks (section 3 of the audit plan). This covers both commercialisation and the medium-term financial strategy.
  - d) A substantive testing approach will be followed as well as using computer-based data analytics tools to support the audit testing (section 5). The work of internal audit will be reviewed, and reliance will be placed on the work of NPS valuation specialists for property values, actuarial specialists for pension fund valuations and Link Asset Services for financial instrument fair values (section 6).
  - e) The proposed core audit fee for 2019-20 are currently subject to discussion between the external auditors and the council (Appendix A). Further fees are expected to be incurred in relation to the audit of the group accounts and the value for money conclusion.

### **Recommendation**

The committee is recommended to review and note the attached report from the council's external auditor.



# Norwich City Council and Group

## Audit Plan

Year ended 31 March 2020

30 April 2020



Audit Committee Members  
Norwich City Council  
City Hall  
St Peter's Street  
Norwich  
NR2 1NH

30 April 2020

Dear Audit Committee Member

2019/20 Initial Audit Plan

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 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 initial 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. We will provide an updated plan if there are any additional audit risks and procedures that arise from the financial reporting requirements of the Covid-19 pandemic.

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 at the next available Audit Committee, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*MARK HODGSON*

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Norwich City 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 Norwich City 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 Norwich City 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 initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate specific risk, given the extent of the Council's capital programme.
Accounting adjustments made in the 'Movement in Reserves Statement'.	Fraud Risk	No change in risk or focus	Linking to our fraud risk above we have considered the accounting adjustments made in the Movement in Reserves statement as a separate specific risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a potential way of achieving these targets.

## 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 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
New financial system	Significant Risk	New risk area in 2019/20	The Council implemented a new general ledger financial system (e5 financial system) on the 1 November 2019. The audit risk is that 100% of relevant financial information has not been appropriately transferred to the new system leading to material misstatement in the 2019/20 financial statements.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	Due to the complexity in accounting for land and buildings and the material values involved, there is a higher risk that asset valuations contain material misstatements. Covid-19 may have a significant impact over the year end valuations.
Pensions valuations and disclosures	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 the Local Government Pension Scheme (LGPS) in which it is an admitted body.
Group Accounts	Inherent Risk	No change in risk or focus	In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity is at a level considered material, which requires the Council to prepare group accounts.  We identify this as an inherent risk at the Council, as the consolidation can be a complex area of accounting.

## Overview of our 2019/20 audit strategy

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### Materiality

Planning  
materiality  
**£3.425m**

Materiality has been set at £3.425 million for the Council and £3.462 million for the Group, which represents 2% of the prior years gross expenditure on provision of services.

Performance  
materiality  
**£2.569m**

Performance materiality has been set at £2.569 million for the Council and £2.597 million for the Group, which represents 75% of materiality.

Audit  
differences  
**£0.171m**

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £171,000 for the Council and the Group. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# 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 Norwich City 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 (Value for Money).

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

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

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

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

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

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 assets and obligations, the introduction of new accounting standards in recent years as well as the expansion of factors impacting the value for money conclusion.

We are currently in the process of discussing the extent of these areas and the audit risks highlighted in this Audit Plan as relevant in the context of Norwich City Council's audit, and the resultant impact on the scale fee. We have only set out the published Scale Fee in Appendix A.



# 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.

For the Council, we have identified the capitalisation of revenue and accounting adjustments made in the movement in reserves statement as the key areas at risk of manipulation. The detail of these is set out on the next pages.

#### What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To address the residual risk of management override we perform specific procedures which include:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- ▶ Assessing key accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

## Audit risks

### Our response to significant risks (continued)

#### **Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure \***

#### **Financial statement impact**

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

#### **What is the risk?**

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

#### **What will we do?**

Our approach will focus on:

- Sample testing additions to Property, Plant and Equipment (PPE) to ensure that 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; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

## Our response to significant risks (continued)

**Misstatements due to fraud or error - accounting adjustments made in the 'Movement in Reserves Statement' \***

**Financial statement impact**

We have identified a risk of misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to accounting adjustments made in the movement in reserves statement and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

**What is the risk?**

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

- The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:
- Revenue Expenditure Funded from Capital Under Statute (REFCUS)
- Minimum revenue provision

**What will we do?**

Our approach will focus on:

- Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the Secretary of State; and
- Reviewing the Council's policy and application of the 'Minimum Revenue Provision'.

## Our response to fraud and significant risks (continued)

### New financial system

#### What is the risk?

The Council implemented a new general ledger financial system (e5) on the 11 November 2019.

As with any major IT upgrade programme, there is a risk that 100% of the relevant financial information has not been appropriately transferred to the new system leading to material misstatement in the 2019/20 financial statements.

In addition, we need to be assured that the IT control environment within the new financial system is working as designed.

#### What will we do?

Our approach will focus on:

- ▶ Uploading data from the new system for both 2018/19 and 2019/20 into our data analytics tool. We will use our data analytics tool to check consistency of mapping (100% coverage);
- ▶ Agreeing the re-mapped data to the audited 2018/19 financial statements;
- ▶ Applying data analytic trending analysis and investigate any material differences;
- ▶ Using transactions testing applied to Balance Sheet and Income & Expenditure statement accounts to provide further assurance on the mapping applied to the 2019/20 data;
- ▶ Reviewing the design and use of IT application controls within the new financial system to ensure the IT control environment remains stable.

## 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?

#### Valuation of Property, Plant and Equipment - Inherent risk

The fair value of Property, Plant and Equipment (PPE), including Heritage Assets and Investment Properties (IP) represent significant balances in the Council's accounts (£1.022 billion at 31 March 2019).

These balances 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.

#### Pension liability valuation - Inherent risk

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 Norfolk County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £204.1 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. For 2019/20 it is possible these entries will be subject to further volatility as a consequence of Brexit and Covid-19.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Consider the work performed by the Council's valuers (NPS), 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, assumptions about the impact of Covid-19);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We 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 circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; and
- ▶ 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.

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 Norwich City Council;
- ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Review the impact of Brexit and Covid-19 on the value of Pension Fund assets and consider whether there are any risks of material misstatement arising from this.

## Audit risks

### 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?

##### Group Accounts

In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity is at a level considered material, which requires the Council to prepare group accounts.

We identify this as an inherent risk as the Council this can be a complex area of accounting.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Review the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Norwich City Council group;
- ▶ Scope the audit requirements for NRL based on their significance to the group accounts. Liaising with the external auditor of NRL (Aston Shaw) and issuing group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- ▶ Ensuring the appropriate consolidation procedures are applied when preparing the Council group accounts and appropriate disclosures are made within the group accounts.

## Audit risks

### Other areas of audit focus (continued)

#### 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. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- ▶ **Going concern** - management's assessment of whether the Council is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- ▶ **Revenue recognition** - there may be an impact on income collection (Council 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 assets** - there may be impairment of tangible assets 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.
- ▶ **Pensions** - volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- ▶ **Receivables** - there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- ▶ **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.
- ▶ **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 the 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.

## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### Going Concern Compliance with ISA 570

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.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

### What will we do?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will continue to discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its full application for 2020/21.



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.

Our initial planning procedures have resulted in the identification of the growing commercial activity of the Council as an area that may present a significant risk and which we therefore need to undertake more work on as part of our risk assessment, as outlined on the following page. We have also identified financial resilience as a risk given the budget gaps identified in the medium term financial plan.

As part of our value for money planning risk assessment for 2019/20 we will consider the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be financially modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers. Our risk assessment will consider 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.



## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p><b>Commercialisation</b></p> <p>The Council continues to identify new ways to generate income in the current constrained financial environment. In 2019/20 the Council has increased investments in commercial property and the investment in the Council's own company, Norwich Regeneration Limited. This has included diversifying the investment portfolio and purchasing assets out of area.</p> <p>Entering into commercial activity on an increased scale requires the Council to continue to have appropriate governance and corporate arrangements in place to appropriately plan and deliver these schemes.</p> <p>We have identified a risk due to the increasing activity by the Council in this area.</p>	<p>Taking informed decisions.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>• Consideration of the Council's Commercial Property Strategy to ensure it is in line with current guidance;</li> <li>• The purchase of investment properties in the year to ensure they are in line with the Council's strategy;</li> <li>• a review of the updated Norwich Regeneration Limited business plan and how it aligns with Council priorities;</li> <li>• the financial modelling of the returns from commercial activity included in the medium term financial strategy.</li> </ul>
<p><b>Financial Resilience</b></p> <p>The Medium Term Financial Strategy (MTFS) shows a need to make further gross savings of £10.0 million over the next four years, assuming demand-led growth of £0.75 million per annum. Following the existing "smoothed" approach this equates to gross savings of £2.49 million each year to 2024/25.</p> <p>Savings plans have yet to be fully developed to address this gap and the commercialisation agenda above is one approach to mitigating the risk.</p> <p>Given the level of the savings required this presents a risk to the Council's financial position.</p>	<p>Deploy resources in a sustainable manner</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Monitor the financial outturn position for 2019/20, including delivery of savings and assess the impact on Reserves;</li> <li>▶ Review the arrangements that the Council have put in place for identifying medium term savings requirement and development of its budget and MTFS;</li> <li>▶ Obtain supporting information in respect of the key savings; and</li> <li>▶ Undertake a sensitivity analysis of past and current activity on future reserves.</li> </ul>



04

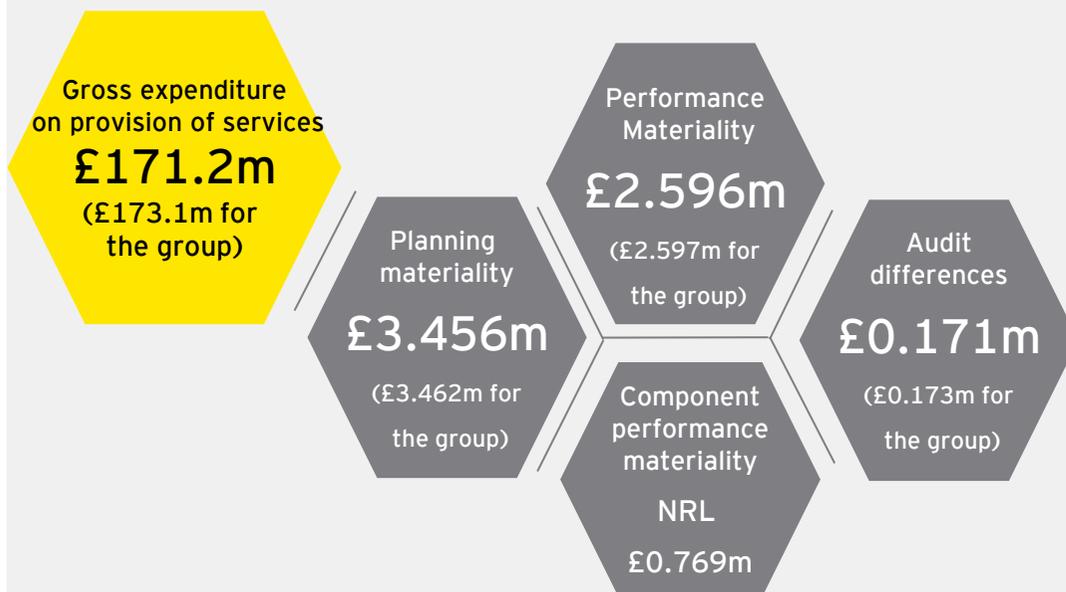
## Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £3.456 million (£3.462 million for the group). This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have chosen this percentage on the basis of there being no shareholders; no traded debt or covenants; limited changes in the business environment; good viability of the business and limited external financing.



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

## Key definitions

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

**Performance Materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.596 million (£2.597 million for the group) which represents 75% of planning materiality.

**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. Assigned performance materiality is £0.769 million for Norwich Regeneration Limited (NRL).

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

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

**Specific materiality** - We have set a specific materiality for the areas below which reflects our understanding that an amount less than our materiality may influence the economic decisions of users of the financial statements:

- Remuneration disclosures, related party transactions and councillor allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



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## 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 and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

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

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

For 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 Governance and 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 review 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.



# Scope of our audit

## Deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. Whilst this has been relaxed for 2019/20 in light of Covid-19, the Council is still working to the original timelines in respect of the draft financial statements and audit timing.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements, changes to finance team etc.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions using the EY Canvas Portal.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the year and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- ▶ Work with the Authority and officers to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate a closedown workshop with Statutory Finance Officers to agree an approach to enable us all to achieve a successful closure of accounts for the 2019/20 financial year.
- ▶ Work with the Authority to implement/ embed/ improve the use of EY Client Portal, this will:
  - ▶ Streamline our audit requests through a reduction of emails and improved means of communication;
  - ▶ Provide on -demand visibility into the status of audit requests and the overall audit status;
  - ▶ Reduce risk of duplicate requests; and
  - ▶ Provide better security of sensitive data.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.

# Scope of our audit

## 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.

1	Full scope audits
Nil	Specific scope audits
1	Review scope audits
Nil	Specified procedures
Nil	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.

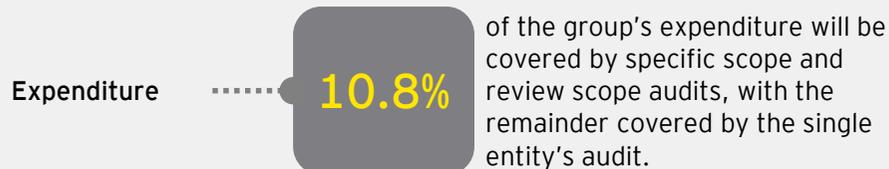
**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**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 (continued)

### Coverage of Revenue/Profit before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's expenditure and group's revenue.



Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Norwich Regeneration Limited (NRL) will be audited by Aston Shaw, a non-EY member firm, who will confirm their independence via our group instructions.

NPS Norwich Ltd, Norwich Norse (Environmental) Limited and Norwich Norse (Building) Limited are audited by PwC, a non-EY member.

### Key changes in scope from last year

There have been no changes in scope from last year. NRL remains a significant component, categorised as specific scope.

### Group audit team involvement in NRL component audit

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

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

### Details of review scope procedures for NPS Norwich Ltd, Norwich NORSE (Environmental) Limited and Norwich NORSE (Building) Limited

In order to provide us a reasonable assurance over NPS Norwich Ltd, Norwich Norse (Environmental) Limited and Norwich Norse (Building) Limited, we will carry out analytical review procedures and seek management representation.



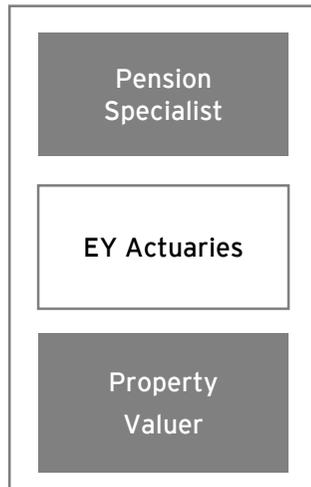
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## Audit team



## Audit team

### Audit team structure:



### Working together with the Council

We will continue to work together with officers to establish strong communication and processes for the 2019/20 audit.

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

The engagement team is led by Mark Hodgson. Mark has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Mark is supported by Mark Russell, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance manager. Mark is providing cover for Sappho Powell, who is currently on maternity leave. Nichola Smith remains as our Team Leader, providing continuity and experience on the engagement.

# Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used by the Council's valuers, NPS.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Norfolk County Council Pension Fund.
Fair value of financial instrument disclosure	Management expert - for the provision of fair value information in respect of financial instruments (Link Asset Services)

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.



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## Audit timeline





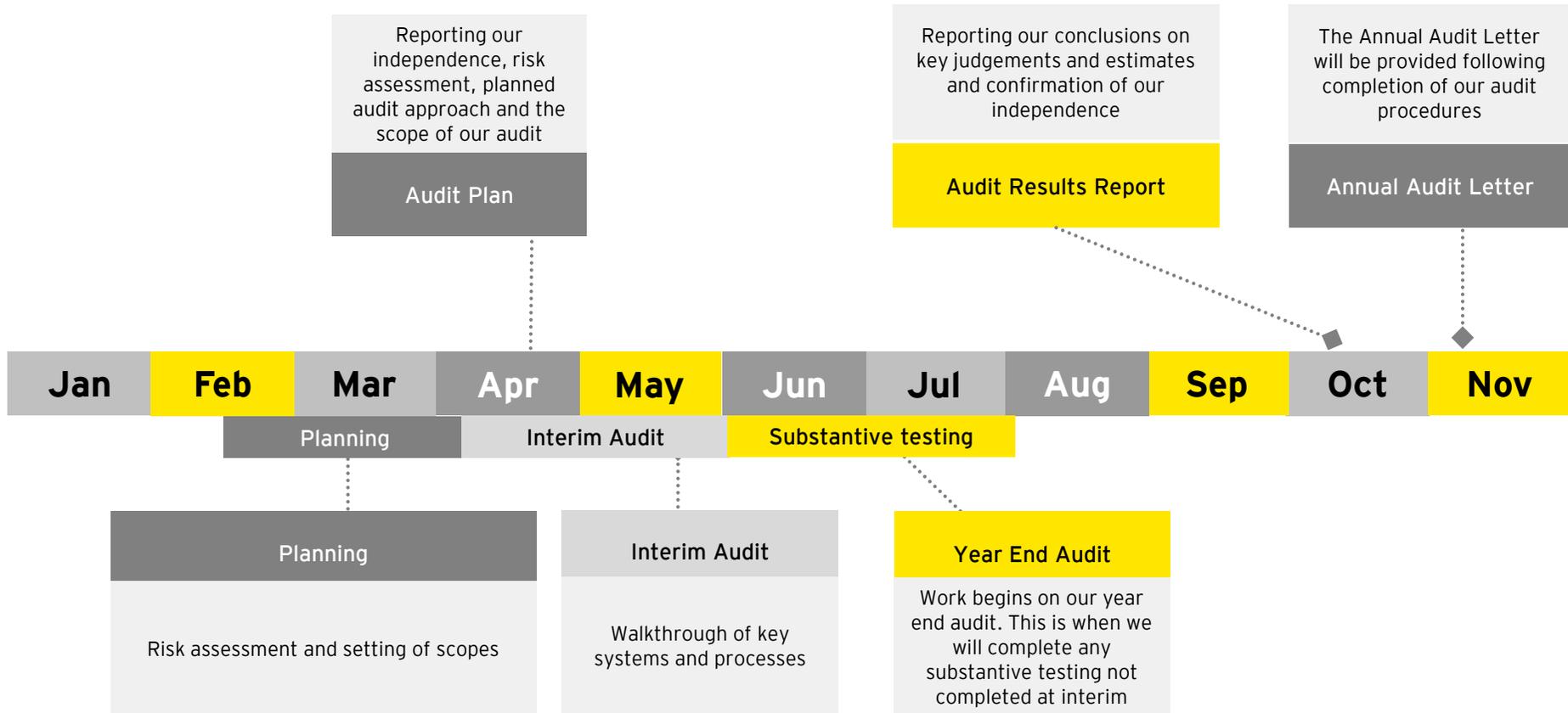
# Audit timeline

## 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 2019/20.

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





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# 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
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ 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;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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 Mark Hodgson, 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 audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 42%. This is based on the planned fee for the agreed upon procedures work for the Housing Benefits certification work. 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.

Description of service	Related independence threat	Period provided	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2019/20. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £25,760 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2019/20 financial statements.	Relates to 2019/20 return for the period to 31 March 2020.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2019/20.  The agreed upon procedures focus on the specific requirements of the certification arrangements. No other threats to independence have been identified.

## 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 end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

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

### Next Steps

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



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## Appendices



## Appendix A

### Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

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

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£'s	£'s	£'s
Total Fee - Code work (Note 1 and 2)	Note 2	61,534	66,057- Note 2
<b>Total audit</b>		<b>61,534</b>	<b>66,057</b>
Other non-audit services not covered above - Housing Benefits (Note 3)	25,250	-	25,250
Total other non-audit services	25,250	-	25,250
<b>Total fees</b>	<b>To be confirmed</b>	<b>61,534</b>	<b>91,307</b>

#### **All fees exclude VAT**

**Note 1** - The final fee for 2018/19 included a scale fee variation to reflect increases in the scope of the audit as summarised below:

- Audit of the group accounts- £3,016
- Work to address the significant value for money risks - £1,507

**Note 2** - We are currently in discussion with management to agree the fair fee required to perform an ISA compliant audit for the Council. This will result in a significant increase in the scale fee set by PSAA Ltd. This discussion will take into account the recurring audit risks as set out within this audit plan. We will then specify the additional cost in respect of the risk specific to the 2019/20 financial statements only - the impact of the new financial system.

We will provide an update to this Committee once those discussions have concluded.

- The agreed fee presented is based on the following assumptions:
- Officers meeting the agreed timetable of deliverables;
- Our financial statements opinion 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.

**Note 3** - This is our current planned fee based on the prescribed procedures and error rate from 2018/19. This may require updating once 2019/20 guidance is provided by DWP and will be subject to an annual uplift of the fee in line with RPI to reflect increased costs, as per our fee agreement.

## Appendix B

# Required communications with the Audit Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - April 2020	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process.</li> </ul>	Audit Results Report - October 2020	

## Appendix B

# Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan - April 2020</p> <p>Audit Results Report - October 2020</p>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit Results Report - October 2020</p>	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Governance and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit Committee may be aware of</li> </ul>	<p>Audit Results Report - October 2020</p>	
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit Results Report - October 2020</p>	

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report - October 2020
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - October 2020
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report - October 2020
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - October 2020

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
 Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - October 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - October 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - October 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - April 2020 Audit Results Report - October 2020 Annual Audit Letter - November 2020

## 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 financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Governance and Audit Committee reporting appropriately addresses matters communicated by us to the Governance and Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

### 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.