NORWICH City Council

Audit committee

Date: **Tuesday, 29 November 2022**
Time: **17:00**
Venue: **Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH**

Supplementary Agenda

Committee members:

Councillors:
Price (chair)
Driver (vice chair)
Everett
Haynes
Kidman
Sands (M)
Stutely
Wright

Independent person
David Harwood

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Supplementary Agenda

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Purpose - This report presents the annual external audit plan 2021/22.

Date of publication**: Thursday, 24 November 2022**

Item 1

Committee name: Audit

Committee date: 29/11/2022

Report title: Annual External Audit Plan 2021/22

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of corporate and commercial services

Wards: All wards

OPEN PUBLIC ITEM

Purpose

This report presents the annual external audit plan 2021/22.

Recommendation:

It is recommended that the committee:

(1) reviews the attached report from the council's external auditor;

(2) confirms its understanding and agreement to the materiality reporting levels set out on page 24; and

(3) considers and agrees the approach and scope of the external audit as proposed in the audit plan.

Policy framework

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets all the corporate priorities.

Report details

Introduction

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2021/22 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) including those which relate to misstatements due to fraud or error. The audit risk in relation to the accounting for Covid-19 related grant funding has been downgraded.

   (b) Section 2 also sets out other areas of audit focus. There continues to be a focus on the accounting treatment of COVID grants and the impact of COVID on business rate appeals provisions. Pension liability disclosures are also an area being considered. As in previous years there will continue to be a focus on asset valuations (property and pension assets), group accounts and going concern. There will also be work associated with bad debt provisions.

   (c) Following recent sector wide discussions, the accounting treatment of infrastructure assets will also be considered.

   (d) The auditors will continue to undertake an assessment of the extent to which the council has achieved value for money.

   (e) A substantive testing approach will be followed as well as using computer-based data analytical tools to support audit testing (section 5).

   (f) A change from the scoping approach adopted in other years' audits will be that Norwich City Services Limited, previously assigned review scope, will be assigned specific scope.

   (g) The work of internal audit will also be reviewed, and reliance will be placed on the work of NPS valuation specialists for property values, actuarial specialists for pension fund valuations (Hymans Robertson) and Link Asset Services for financial instrument fair values (section 6).

   (h) Section 7 sets out a high-level timetable for the audit. The council will not achieve the publication date for audited accounts set by the Ministry of Housing, Communities and Local Government (MHCLG) of 30 November 2022.

   (i) The proposed core audit fee for 2021/22 is shown in Appendix A to the report and remains as in the previous year. However, EY have reassessed the scale fee to consider the same recurring risk factors identified in 2020/21. The fee for both years remains subject to approval by PSAA Ltd.

Consultation

3. The purpose of the external audit plan is to consult with members of the audit committee and officers on the approach and scope of the audit. No additional consultation has taken place.

Implications

Financial and resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2022-26 and budget.

4. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan and Budget.
5. There are no proposals in this report that would reduce or increase resources.

Legal

6. The statutory timescale for the publication of the 2021/22 accounts has been met however, the national issues associated with undertaking statutory audits has had an impact and the statutory deadline for the publication of audited accounts (30 November 2022) will not be met.
7. There are no other specific legal implications arising from this report.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	None identified
Health, Social and Economic Impact	None identified
Crime and Disorder	None identified
Children and Adults Safeguarding	None identified
Environmental Impact	None identified

Risk Management

Include operational, financial, compliance, security, legal, political or reputational risks to the council

Risk	Consequence	Controls Required
Compliance, reputational risks associated with failure to publish audited accounts by statutory deadline	Ability to give confidence to users of the council's financial statements is reduced	Publication of information advising when accounts will be published and reasons for delays.

Other Options Considered

8. There are no alternative options to this report.

Reasons for the decision/recommendation

9. The committee is recommended to review and note the attached report from the council’s external auditor which sets out the approach and scope to the 2021/22 audit of the council’s statement of accounts.

Background papers:

None

References:

Draft Statement of Accounts 2021/22

Appendices:

EY External Audit Plan 2021/22

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Norwich City Council

Initial Audit Plan

Year ended 31 March 2022

23 November 2022

Building a better working world

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

23 November 2022

Dear Audit Committee Members

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 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 29 November 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

David Riglar

Partner

For and on behalf of Ernst & Young LLP

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Contents

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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 2021/22 audit strategy

Overview of our 2021/22 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 (Management Override).
Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above, we have determined that a way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Valuation of Investment Property	Significant Risk	No change in risk or focus	The fair value of Investment Property (IP) represents a significant balance in the Council's accounts and is 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.

Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for COVID-19 related government grants	Inherent Risk	Reduced risk in 2021/22 from prior year	The Council has received a significant level of government funding in relation to COVID-19, including a number of new grants in 2021/22. There is a need for the Council to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions. As there have been new, individually material, grants received during the year, including the COVID-19 Additional Relief Fund we have retained this as a risk area. However, as the Council correctly accounted for COVID related grant income in 2020/21, we have downgraded the risk from significant to inherent.
Pension Valuation and Other 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. The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's Balance Sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the Pension Fund Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.
Valuation of Property, Plant, and Equipment	Inherent Risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represents a significant balance in the Council's accounts and is 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 Land & Buildings balances recorded in the Balance Sheet.

Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
National Non-Domestic Rates (NNDR) Appeals Provision	Inherent Risk	No change in risk or focus	Due to the impact of COVID-19, there is a possibility that businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. The Council's NNDR Appeals Provision is a material estimate, totalling £2.56 million for the Collection Fund as a whole. In light of this, we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.
Recoverability of Receivables (Debtors)	Inherent Risk	No change in risk or focus	As a result of the long term impact of COVID-19 and other market uncertainties there may be increased uncertainty around the recoverability of Receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of ongoing uncertainty and assess the appropriateness of this estimation technique.
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 will also need to consider the implications of the incorporation and transactions for Norwich City Services Ltd, another Council owned company, on the Council's group boundary and consolidation requirements. We have designated this as an Inherent risk at the Council, as the considerations and consolidation can be a complex area of accounting.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality
£3.208m

Materiality has been set at £3.208 million (rounded), for the audit of the Council, which represents 2% of the current year draft accounts gross expenditure on provision of services. Note: for the Group audit, this materiality has been calculated on the Group's current year draft accounts gross expenditure as £3.408 million (rounded).

Performance materiality
£2.406m

Performance materiality has been set at £2.406 million, which represents 75% of materiality. Note: for the Group entities we have allocated a performance materiality of £2.556 million.

Audit differences
£0.160m

We will report all uncorrected misstatements relating to the primary statements including the group (Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, and Cash Flow Statement) greater than £0.160 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including Member allowances: we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts; and
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2021/22 audit strategy

Audit scope

This Initial 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 and Group give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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 ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Norwich City Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three reporting criteria:
  - Financial sustainability – How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance – How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness – How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for 2021/22.

In Section 07 we include a provisional timeline for the audit. We will work with the Council to complete the audit to this timeline or ensure that appropriate publication wording is published by the date set out above.

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.

What will we do?

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

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
    - Assessing accounting estimates for evidence of management bias, and
    - Evaluating the business rationale for significant unusual transactions.

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

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure (including REFCUS)' are required, as set out on the following page.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

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

What will we do?

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

- For significant additions, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We will review the sample selected against the definition of capital expenditure in IAS 16.
- We will extend 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.
- We will compare the capital expenditure reported in the financial statements to the capital plan and budget monitoring reports to identify unexplained differences that could be indicative of revenue/ capital manipulation.
- Journal testing – we will use our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure Financial statement impact and subsequently capitalised.

Our response to significant risks (continued)

Significant risk – Valuation of investment properties

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.

What is the risk?

The Council's investment property totals £119.445 million as at 31 March 2022 (per the draft Financial Statements) which represents a significant balance in the Council's accounts and is subject to valuation changes and impairment reviews. Material judgements and estimation techniques are required to calculate the year-end balances.

There has been a significant revaluation gain in the year of £15.696 million representing a 15% increase in value from the prior period.

There is a therefore a risk that investment property may be misstated 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 in values or impairments that occur 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;
- For a sample of assets;
    - 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 movements in values.
    - Consider the engagement of internal experts as required to review asset valuations
- Test accounting entries, ensuring these have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Accounting for COVID-19 related government grants In response to the COVID-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these. We are aware of new COVID-19 grant income in 2021/22 for example the COVID-19 Additional Relief Fund (CARF) that is material in nature. Given the volume of these grants, the new conditions for the Council to understand the accounting impact of, there is an inherent risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.	In order to address this risk we will carry out a range of procedures including: • Consider the Council's judgement on material grants received in relation to whether it is acting as an agent or a principal
Pension Liability Valuation & other pension disclosures The Authority makes extensive disclosures within its financial statements regarding its membership of Norfolk Pension Fund Scheme administered by Norfolk County Council. At 31 March 2022 the liability totalled £156.25 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Norfolk Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We 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 Norwich City Council; • Assess the work of the Pension Fund actuary (Hyman Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19 considering fund assets and the Authority's liability.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
Valuation of Property, Plant, and Equipment The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. At 31 March 2022 the net book value of PPE was £995.8 million Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.	In order to address this risk we will carry out a range of procedures (which include the group balances) including: • Consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2021/22 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
National Non-Domestic Rates (NNDR) Appeals Provision The calculation of the NNDR Appeals Provision is estimate based. Given the impact of COVID-19 on businesses seeking reductions in rateable values, there is a risk of material misstatement of the appeals provision due to the nature of the provision and the uncertainty around the full impact of COVID-19. In light of this we consider there to be an inherent risk of misstatement of the Council's NNDR appeals provision.	We will consider the Council's estimation of the NNDR appeals provision by performing the following: • Review the assumptions made by the Council's NNDR appeals provision specialist; and • Assess the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
Bad debt provision and recoverability of debtors As a result of the long term impact of COVID-19 and other market uncertainties there may be increased uncertainty around the recoverability of receivables. This includes large value debtors with subsidiary companies. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of COVID-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.	In order to address this risk we will carry out a range of procedures including: • Review the calculation of the Bad Debt Provision for reasonableness and accuracy; and • Consider the recoverability of debts in testing a sample of trade receivables.
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. Subsequently, in 2021 the Council incorporated Norwich City Services Ltd, another Council owned company, this is the second year for which it is included in the group consolidation. We have designated this as an Inherent risk at the Council, as the considerations and consolidation can be a complex area of accounting.	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, including any new considerations pertaining to Norwich City Services Ltd; • 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; and • Ensuring that 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)

Infrastructure Assets Considerations

An issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. It has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost and accumulated depreciation will continually increase, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

In response to the issue, CIPFA are considering a potential amendment to the CIPFA Code of Local Authority Accounting and the Department for Levelling Up, Housing and Communities have issued a draft Statutory Instrument for consultation. The changes are likely to change the accounting reporting concerning infrastructure assets. We will need to asses whether the Council's accounting treatment of infrastructure assets complies with current Code requirements and any updated guidance or Code amendments issued by CIPFA. This issue may therefore lead to additional work being required to determine the impact on the Council's accounts.

03 Value for Money Risks

Value for Money

Council's responsibilities for value for money

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

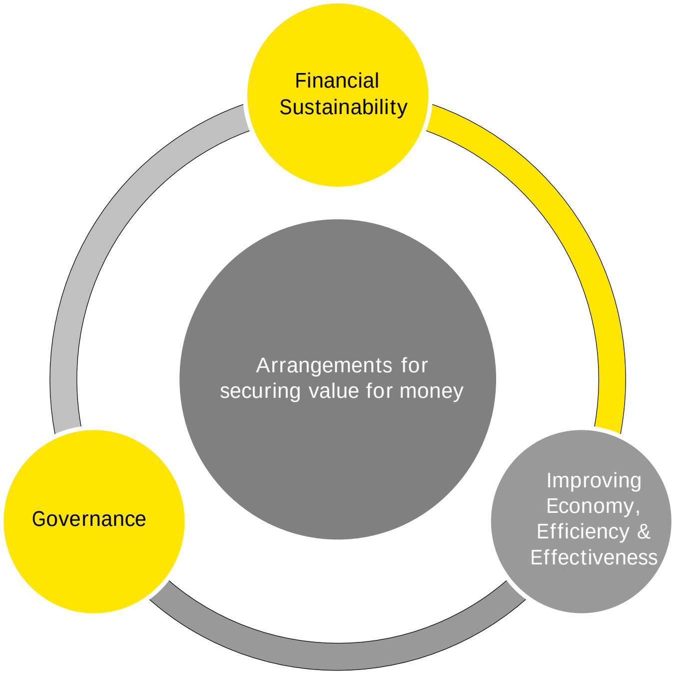
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor responsibilities

Under the NAO Code of Audit Practice 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. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

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

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

We should also be informed by a consideration of:

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

Value for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

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

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM risk planning.

We will provide an update on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements at a future Audit Committee meeting.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £32.9 million for the Group, and £28 million for the Council. This represents 1.8% of the Council and the Group's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix C.

Group Gross expenditure on provision of services
£170.38m

Group Planning materiality
£3.408m

Group performance materiality
£2.556m

Audit differences
£0.170m

Council Gross expenditure on provision of services
£160.39m

Council Planning materiality
£3.208m

Council performance materiality
£2.406m

Audit differences
£0.160m

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 £2.556 million for the group and £2.406 million for the Council which represents 75% of planning materiality, This reflects the relatively lower level expectation of misstatements in our 2021/22 financial statement 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 these thresholds (Group and Council) are deemed clearly trivial. The same threshold for misstatements is used for component reporting. 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.

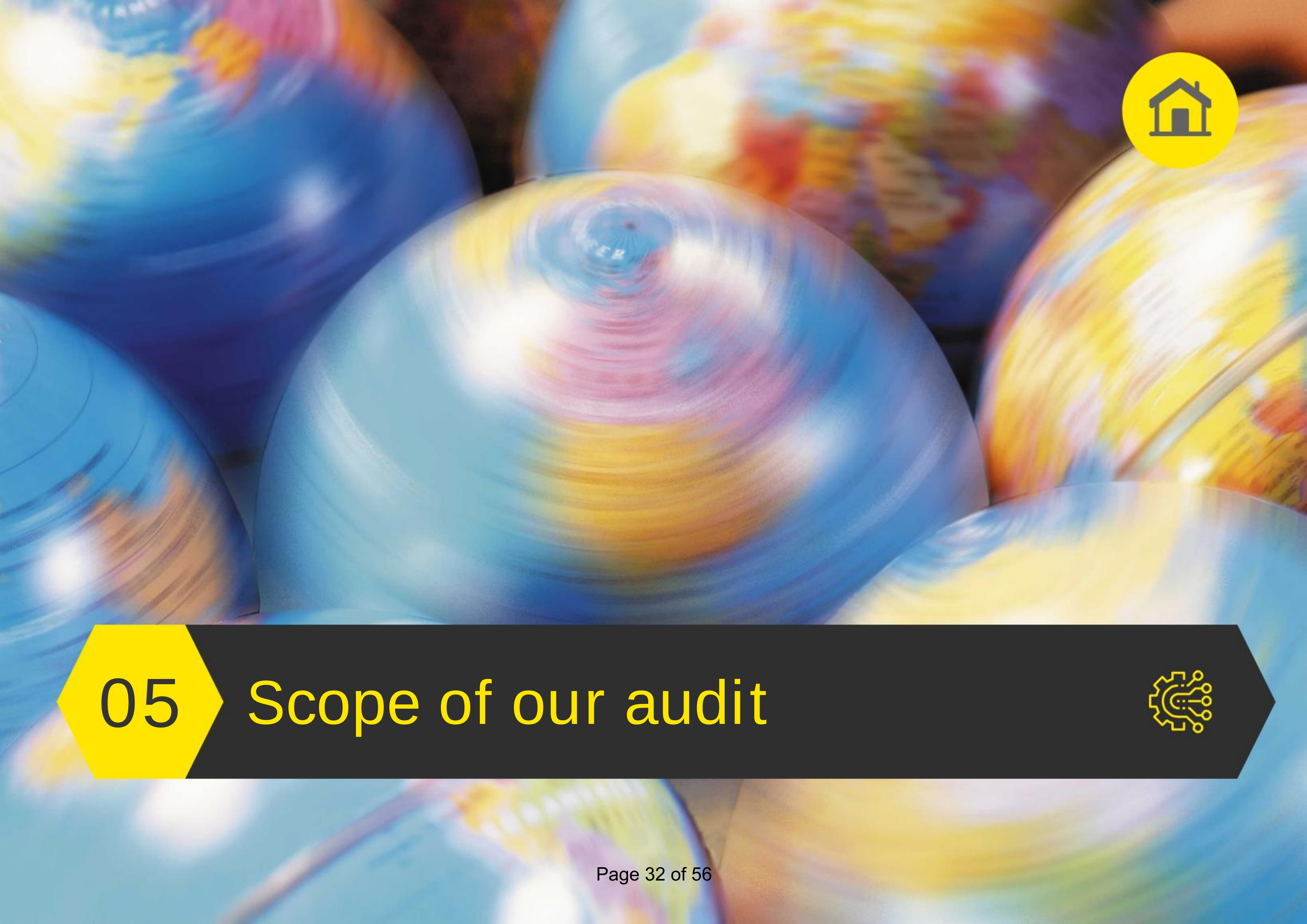
Specific materiality – We have set a materiality threshold of £5,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £1,000. This reflects our understanding that an amount less than our materiality would not influence the economic decisions of users of the financial statements in relation to these disclosures.

Materiality

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.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions: we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.



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 undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper 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 opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:
- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:
- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body’s audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

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

As outlined in Section 03, 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 and report a commentary on those arrangements.

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 2021/22 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 review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material 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 entity's. 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 A.

1	A	Full Scope: Norwich City Council
2	B	Specific scope audit: Norwich Regeneration Limited, Norwich City Services Ltd.
3	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: Entities where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit.

Specific scope: Entities 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: Entities 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: Entities where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those component entities 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 Expenditure

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.

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

Expenditure — 100% of the Group's expenditure will be covered by the full scope review audit of the Single Entity Council (94.1%) with specific scope procedures for Norwich Regeneration Limited and Norwich City Services Ltd (5.9%) covering the remainder.

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

Key changes in scope from last year

Based on our discussions with management and the provided scope assessment by the Council, and knowledge from the 2021/22 audit we anticipate one change in scope from prior year:

Norwich City Services Limited previously assigned review scope will be assigned specific scope.

Other entities scoping remains unchanged:

The Council, as single entity, remains as a full scope audit.

Norwich Regeneration Limited remains a 'significant component', categorised as specific scope scope.

Details of specific scope and other procedures

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 and other procedures

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

06 Audit team

Audit team

Audit team structure:

David Riglar
Audit Partner

Andrew Paylor
Audit Manager

Gavin Savage
Senior

EY Real Estates (EYRE)

PwC (consulting actuary) and EY Pensions

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2021/22 audit.

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

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Pension Team PWC – Consulting Actuary commissioned by the NAO Management's specialist Hymans Robertson – Actuary Norfolk Pension Fund
Valuation of Land and Buildings & Investment Properties	Management's specialist Norfolk Property Services EY Real Estates (in relation to assessing the Council's valuers and otherwise required)
Financial Instruments	Management's specialist Link Asset Services (Treasury Management Adviser)

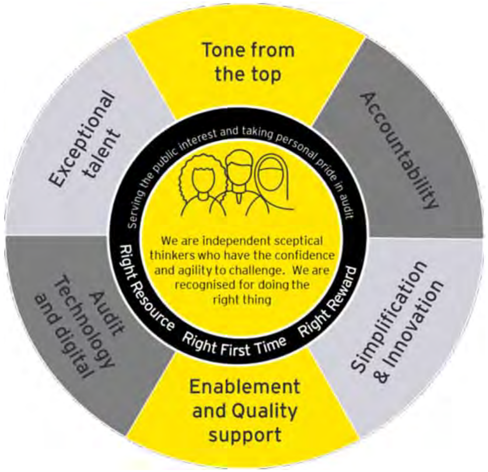
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

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.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - Right resources – We team with competent people, investing in audit technology, methodology and support
   - Right first time – Our teams execute and review their work, consulting where required to meet the required standard
   - Right reward – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of Sustainable Audit Quality are implemented.

01 Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

“A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success.”

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

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.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	July 2022 / November 2022	Audit Committee	Audit Plan
Walkthrough of key systems and processes	Feb 2023		
Year end audit	Feb/March 2023	Audit Committee	Audit Plan Update – VFM Risk Assessment
Audit Completion procedures	March 2023	Audit Committee	Audit Results Report Audit opinion and completion certificates
	July 2023	Audit Committee	Auditor’s Annual Report

The sector wide issues identified in the 2020 independent review by Sir Tony Redmond on Local authority financial reporting and external audit continue to impact on the timelines to deliver a quality audit to the Council. Sector wide actions continue to be implemented in line with the Government’s response to the 23 recommendations made in the independent review across the following themes:

- Action to support immediate market stability
- Consideration of system leadership options
- Enhancing the functioning of local audit, and the governance for responding to its findings
- Improving transparency of local authorities’ accounts to the public

We are continually monitoring the impact on audit timelines, and will communicate the final timeline to the Council when confirmed.

08 Independence

Introduction

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

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of 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 have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

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

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 2022

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 2022: https://www.ey.com/en_uk/about-us/transparency-report

09 Appendices

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.

	Planned fee 2021/22	Estimated Fee 2020/21
	£'s	£'s
Scale Fee – Code work	61,534	61,534
Scale Fee Variation (Note 1)	-	113,517
Baseline increase in Scale Fee from 2019/20 (Note 2)	68,321 (Note 2)	-
Additional Audit Procedures (Note 3)	TBC	-
Total audit	TBC	175,051
Other non-audit services not covered above (Housing Benefits)	TBC	26,050 (Note 4)
Total fees	TBC	201,101

All fees exclude VAT

Note 1 – We have discussed the 2020/21 fee variation with officers, and listened to their representations accordingly. We are awaiting approval from PSAA.
Note 2 - For 2021/22 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and 2020/21 and is subject to determination by PSAA Ltd – subject to annual price uplifts.

Note 3 - For 2021/22, the scale fee will be impacted by a range of factors which will result in additional work, including some of those that were present in the prior year – such as the impact of Covid-19. See Section 2 of this report for further areas that are likely to lead to additional fees.

Note 4 – The non-audit services on the Council's Housing Benefits return is complete for 2020/21. We are planning the work for 2021/22 and will confirm the final fee when the services have been completed.

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 B

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. 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 – November 2022 - Audit Committee
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 – March 2023 - Audit Committee; and Auditor's Annual Report – March 2023 – Audit Committee

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit Results Report – March 2023 - Audit Committee
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 • Material misstatements corrected by management	Audit Results Report – March 2023 - Audit Committee
Subsequent events	• Enquiries of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report – March 2023 - Audit Committee
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 • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility	Audit Results Report – March 2023 - Audit Committee

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
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 – 2023 - Audit Committee
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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – November 2022 - Audit Committee; and Audit Results Report – March 2023 - Audit Committee
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – March 2023 - Audit Committee
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • 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 – March 2023 - Audit Committee

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you: When and where
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit Results Report – March 2023 - Audit Committee
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 Plan – November 2022 - Audit Committee; and Audit Results Report – March 2023 - Audit Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – March 2023 - Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – March 2023 - Audit Committee
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – March 2023 - Audit Committee Auditor's Annual Report – July 2023
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 - November 2022 - Audit Committee; and Audit Results Report – March 2023 - Audit Committee
Value for Money	• Risks of significant weakness identified in planning work • Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit Plan – November 2022 - Audit Committee; Audit Results Report – March 2023 - Audit Committee Auditor's Annual Report – July 2023

Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

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 Group and 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 Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. • Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period (WGA Return).
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

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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