

Committee Name: Audit

Committee Date: 13/07/2021

Report Title: Annual External Audit Plan 2020-21

Portfolio:	Councillor Kendrick
Report from:	Executive director of corporate and commercial services (S151 officer)
Wards:	All wards
OPEN PUBLIC ITEM	

Purpose

This report presents the annual external audit plan 2020-21.

Recommendation:

It is recommended that the committee:

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

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets all the corporate priorities

This report addresses healthy organisation strategic action in the Corporate Plan

This report helps to meet council's financial objective of the COVID-19 Recovery Plan

Report Details

Introduction

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2020-21 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. There is a new risk in relation to the accounting for Covid-19 related grant funding.
 - b) Section 2 also sets out other areas of audit focus. This year, linked to the impacts of Covid-19, there are additional areas of focus on the NNDR appeals provision, bad debt provisions and collection fund accounting. As in previous years there will be focus on asset valuations (property and pension assets), group accounts and going concern.
 - c) Changes in the auditor responsibilities in relation to the value for money opinion. This has arisen because of changes in the National Audit Office's (NAO) 2020 Code.
 - 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) Section 7 sets out the timetable for the audit. The Results Report is scheduled currently scheduled for January 2022. The council will therefore not achieve the publication date for audited accounts set by the Ministry of Housing, Communities and Local Government (MHCLG) of 30 September 2021.
 - f) The proposed core audit fee for 2020-21 is shown in Appendix A to the report. EY have re-assessed the scale fee to take into account the same recurring risk factors identified in 2019/20. The fee for both years is subject to approval by PSAA Ltd. At this stage, EY are not able to quantify the impact of any work resulting as a response to Covid-19 risks; an update on the additional fee implications will be provided at the conclusion of the audit.

Consultation

Audit committee and with officers.

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 2019-22 and Budget.

There are no proposals in this report that would reduce or increase resources.

Legal

There are no 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
None identified		

Other Options Considered

There are no alternative options to this report.

Reasons for the decision/recommendation

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

Tracking Information

Governance Check	Name	Date Considered
Relevant Executive Director	Annabel Scholes	05/07/2021
Legal opinion	Katrina Hulatt	05/07/2021
Relevant finance officer	Hannah Simpson	05/07/2021
Chief Finance Officer (or Deputy)	Annabel Scholes	05/07/2021
Monitoring Officer (or Deputy)	Katrina Hulatt	05/07/2021

Background papers:

None

Appendices:

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Norwich City Council

Provisional Audit Plan

Year ending 31 March 2021

30 June 2021



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

30 June 2021

Dear Audit Committee Members

Provisional Audit Plan - 2020/21

We are pleased to attach our Provisional Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 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 report summarises our initial assessment of the key issues which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will provide an update to the Committee if there are any additional audit risks and procedures that arise as we continue our work.

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 13 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young

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/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 the 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 the 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 the Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk identified 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 identified 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.
Accounting for Covid-19 related government grants	Significant risk	New significant risk	The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions.
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. Due to the Covid-19 pandemic and the restrictions imposed by lockdowns during the year there is increased uncertainty around the valuation of these properties.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Property, Plant and Equipment	Inherent Risk	No change in risk or focus.	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. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Valuation and Disclosures	Inherent Risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Authority 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.
National Non-Domestic Rates (NNDR) Appeals Provision	Inherent Risk	New inherent risk	Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.
Bad debt provision and recoverability of receivables (Debtors)	Inherent Risk	New inherent risk	As a result of the impact of Covid-19, 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 Covid-19 and assess the appropriateness of this estimation technique.
Collection Fund accounting	Inherent Risk	New inherent risk	During 2020/21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income. There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief. There is therefore a risk of incorrect accounting based on the significant level of change in the year.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Group Accounts	Inherent Risk	No change in risk or focus	<p>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.</p> <p>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.</p> <p>We have designated this as an Inherent risk at the Council, as the considerations and consolidation can be a complex area of accounting.</p>
Going Concern assessment and disclosure	Area of Focus	No change in risk or focus	<p>The financial landscape for the Council remains challenging and management will need to prepare a going concern assessment covering a period up to 12 months from the expected date of the financial statements authorisation. The Council will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.</p>

Accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. See page 18 for further details of the revised auditing standard.

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality
£3.449m

We have set materiality at £3.449 million for the financial statements which represents 2% of the prior years gross revenue expenditure of the Council. Materiality for the group financial statements is £3.462 million. The use of 2% of gross revenue expenditure is in line with the prior year and is our maximum threshold for local authorities reflecting the higher profile of local government financial resilience and financial reporting.

Performance
materiality
£2.587m

We have set performance materiality at £2.587 million for the Council and £2.597 million for the group financial statements. This represents 75% of materiality reflecting the lower level of errors we detected in the 2019/20 financial statements.

Audit
differences
£0.172m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.172 million for the Council and £0.173 million for the Group. We will communicate other misstatements identified 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 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with our audit opinion on the Council and Group financial statements for 2020/21. We are also required to report a 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, highlighting the changes included in the NAO's Code of Audit Practice 2020.

We will also review and report to the NAO, to the extent and in the form required by them, on the Whole of Government Accounts submission. We intend to take a substantive audit approach. When planning the audit we take into account 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.

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 Going Concern disclosure in recent years as well as the expansion of factors impacting the Value for Money conclusion. Therefore, to the extent any of these or any other risks are relevant in the context of the Council's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021 audit strategy

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- ▶ We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on VFM and the associated risk assessment is now 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 be required to 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.
- ▶ Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- ▶ The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at a date to be determined by the NAO.

Timeline

MHCLG have provided a revised date for the Authority to publish its draft accounts to 1 August 2021 and as part of their response to the Redmond Review, MHCLG have confirmed that for 2020/21 that target date for audited accounts would be 30 September 2021. We have communicated with the Chief Finance Officers for all local authorities in the East of England to share our proposal to phase the delivery of the 2020/21 audits by the end of the year. In Section 07 we therefore include a provisional timeline for the audit of Norwich City Council.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver a Code compliant audit. We include in Section 08, our current view of the fees required to carry out the 2020/21 audit. We will update the Committee on any determinations by PSAA on fees.



02

Audit risks





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 expenditure 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?

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

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ 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 and evaluating the business rationale for significant unusual transactions.



Audit risks

Our response to significant risks

Inappropriate 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 the 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?

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.

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 of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.

What will we do?

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

- ▶ Obtaining an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewing the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Sample testing additions to Property, Plant and Equipment 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.



Audit risks

Our response to significant risks

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

We consider the risk of manipulation 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 misstate 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 (MRP)

What will we do?

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

- ▶ Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the Secretary of State;
- ▶ Reviewing the Council's policy and application of the 'Minimum Revenue Provision'; and
- ▶ Using our data analytics tool to identify and test journal entries adjustments made in the movement in reserves statement.



Audit risks

Our response to significant risks

Accounting for Covid-19 related grant funding

Financial statement impact

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What is the risk?

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.

Given the volume of these grants, and the new conditions for the Council to understand the accounting impact of, there is a significant risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

What will we do?

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

- ▶ Sample testing Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature.
- ▶ Sample testing Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.

Audit risks

Our response to significant risks

Valuation of Investment Property

Financial statement impact

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What is the risk?

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.

At 31 March 2020 the fair value of Investment Property was £108.6 million.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Due to the Covid-19 pandemic and the restrictions imposed by lockdowns during the year there is increased uncertainty around the valuation of these properties.

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 valuer (NPS), 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 if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the area of focus?	What will we do?
<p>Valuation of Property, Plant, and Equipment - Inherent Risk</p> <p>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.</p> <p>At 31 March 2020 the net book value of PPE was £930.5 million, We note that within PPE, our focus is on Land and Buildings and Surplus Assets.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Consider the work performed by the Council's valuer (NPS), 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 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 2020/21 to confirm that the remaining asset base is not materially misstated; ▶ Consider changes to useful economic lives as a result of the most recent valuation; and ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
<p>Pensions valuations and disclosures - Inherent Risk</p> <p>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.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>At 31 March 2020 the pension liability totalled £169.617 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>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.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ 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 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.
<p>National Non-Domestic Rates Appeals Provision - Inherent Risk</p> <p>The calculation of the NNDR Appeals Provision is estimate based. Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.</p> <p>In light of this we consider there to be a risk of misstatement of the Council's NNDR appeals provision.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Review the assumptions made by the Council's in calculating the NNDR appeals provision; 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 risk/area of focus?	What will we do?
<p>Recoverability of Receivable (Debtors) - Inherent Risk</p> <p>As a result of the impact of Covid-19, 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 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.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ 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.
<p>Accounting for Collection Fund disclosures - Inherent Risk</p> <p>During 2020/21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income.</p> <p>There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief for the financial year. There is therefore a risk of incorrect accounting based on the significant level of change in the year.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Performing an analytical review of collection fund income, building in any changes in relief as appropriate; ▶ Document our understanding of the process for the raising of specific additional reliefs; and ▶ Review the Collection Fund disclosures with respect to ongoing guidance in accounting requirements and for compliance with Code requirement.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Group Accounts - Inherent Risk</p> <p>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.</p> <p>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.</p> <p>We have designated this as an Inherent risk at the Council, as the considerations and consolidation can be a complex area of accounting.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none">▶ 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.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Going Concern Compliance with ISA 570 - Area of Focus</p> <p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure it's going concern assessment is thorough and appropriately comprehensive.</p> <p>The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.</p>	<p>We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none"> ▶ Challenging management's identification of events or conditions impacting going concern; ▶ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias); ▶ Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern; ▶ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. <p>We will discuss the detailed implications of the revised Auditing Standard with finance staff shortly and seek to agree with management to receive an early draft of the Council's going concern assessment in advance of the 2020/21 year-end audit in order to provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.</p>



Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Auditing accounting estimates - Area of Focus

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.



03

Value for Money Risks





Value for money

The 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.

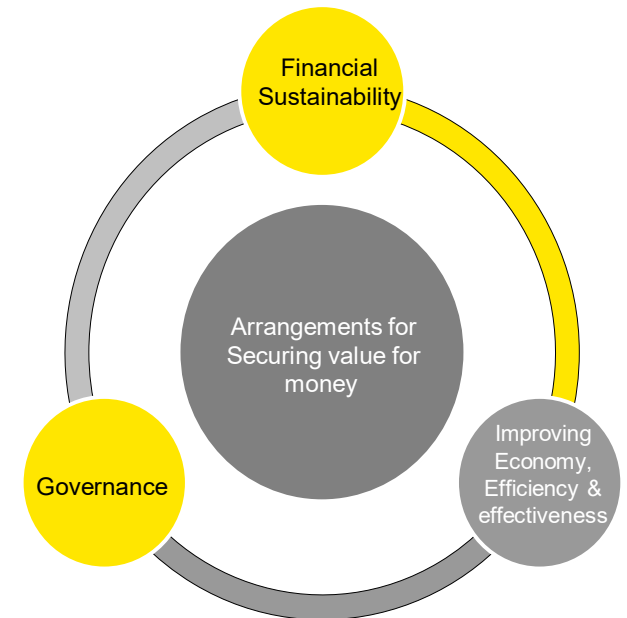
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its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

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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





Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

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

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

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

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

We should also be informed by a consideration of:

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



Value for money

Responding to identified risks

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

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus through our risk assessment will be on the arrangements that the Council has in place in relation to financial sustainability in light of the impact of Covid-19 on the Council's finances. This includes arrangement with key business partners including subsidiary companies.

We have not at the time of our issuing of this Provisional Audit Plan identified any significant risks in respect of Value for Money.

The Budget Report presented to the Council in February 2021 outlines that in year savings were made during 2020/21 to mitigate the impact of the Covid pandemic. Whilst the budget for 2021/22 shows a balanced position, without the use of reserves, this does require further savings efficiencies to be delivered. Moreover, balancing the budget over the medium term will require some further efficiencies of up to £9.6 million (by 2024/25) which are yet to be identified. Risks could still be significant, and reserves need to be available should the Council need to draw on them as a result of ongoing pressures.

We will update the Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.



04

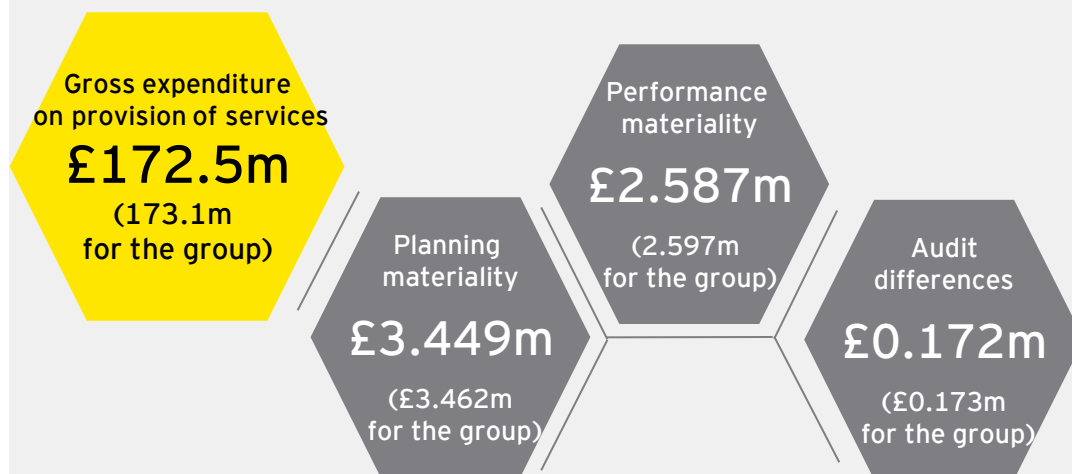
Audit materiality



Materiality

Materiality

For planning purposes, planning materiality for 2020/21 has been set at £3.449 million for the Council's financial statements. This represents 2% of the Council's prior year gross revenue expenditure (GRE) on provision of services. It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities.



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 £2.587 million for the single entity and £2.597 million for the group financial statements which represents 75% of planning materiality. This reflects the relatively lower level of errors detected in our 2019/20 financial statements audit.

Audit difference threshold - we propose that misstatements identified below this threshold of £0.172 million for the single entity and £0.173 million for the group statements 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.



05

Scope of our audit



Scope of our audit

Objective and scope of our audit

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; 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.

Scope of our audit

Audit Process overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. Although we are therefore not intending to rely on individual system controls in 2020/21, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

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

As in prior years we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

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.

Note: We have not included Norwich City Services Ltd within our assessment at this point. We will consider the implications of this entity to the group boundary and procedures as part of our audit.

Scoping by Entity

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

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

Scope definitions

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

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

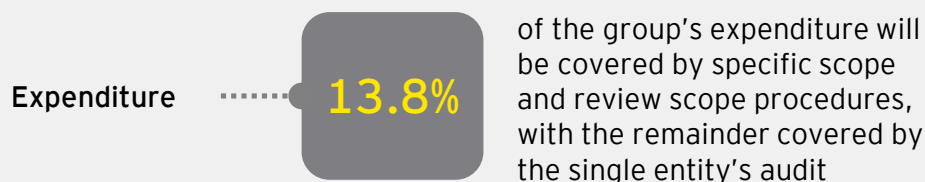
Other procedures: Where we do not consider it material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

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 revenue and group's net cost of service expenditure.



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 are no changes in scope from the previous 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. Our planned involvement is as follows:

- Provide specific instruction to component team and our expectations regarding the detailed procedures;
- Set up initial meeting with component team to discuss the content of the group instructions;
- Consider the need to perform a file review of component team's work where appropriate; and
- 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.



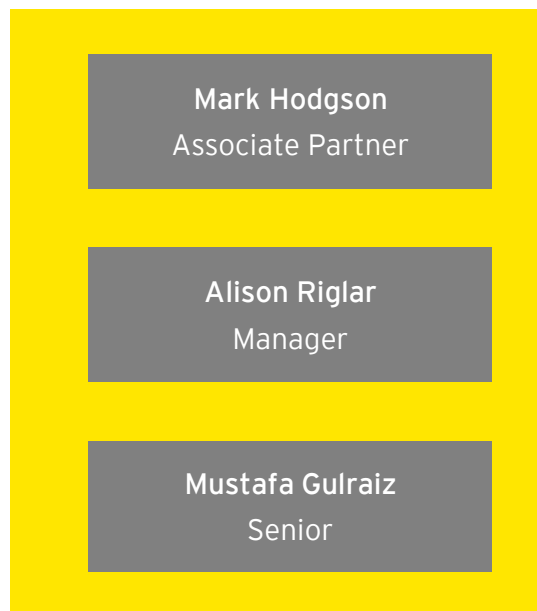
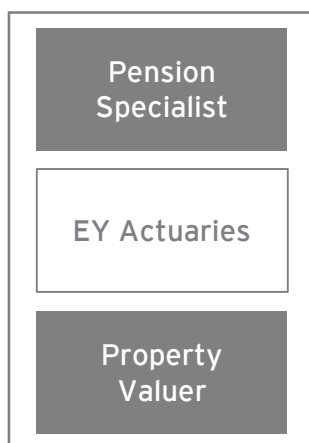
06

Audit team



Audit team

Audit team structure:



Working together with the Council

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

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

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 Alison Riglar, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Finance. The day to day audit team will be lead by Mustafa Gulraiz, Senior.

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 Pensions Advisory PwC (Consulting Actuary to the National Audit Office) Hymans Robertson - Actuary to Norfolk Pension Fund
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.
Fair Value Investment Measurement	Link Asset Services (the Council's management expert for the provision of fair value information in respect of financial instruments)

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

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline



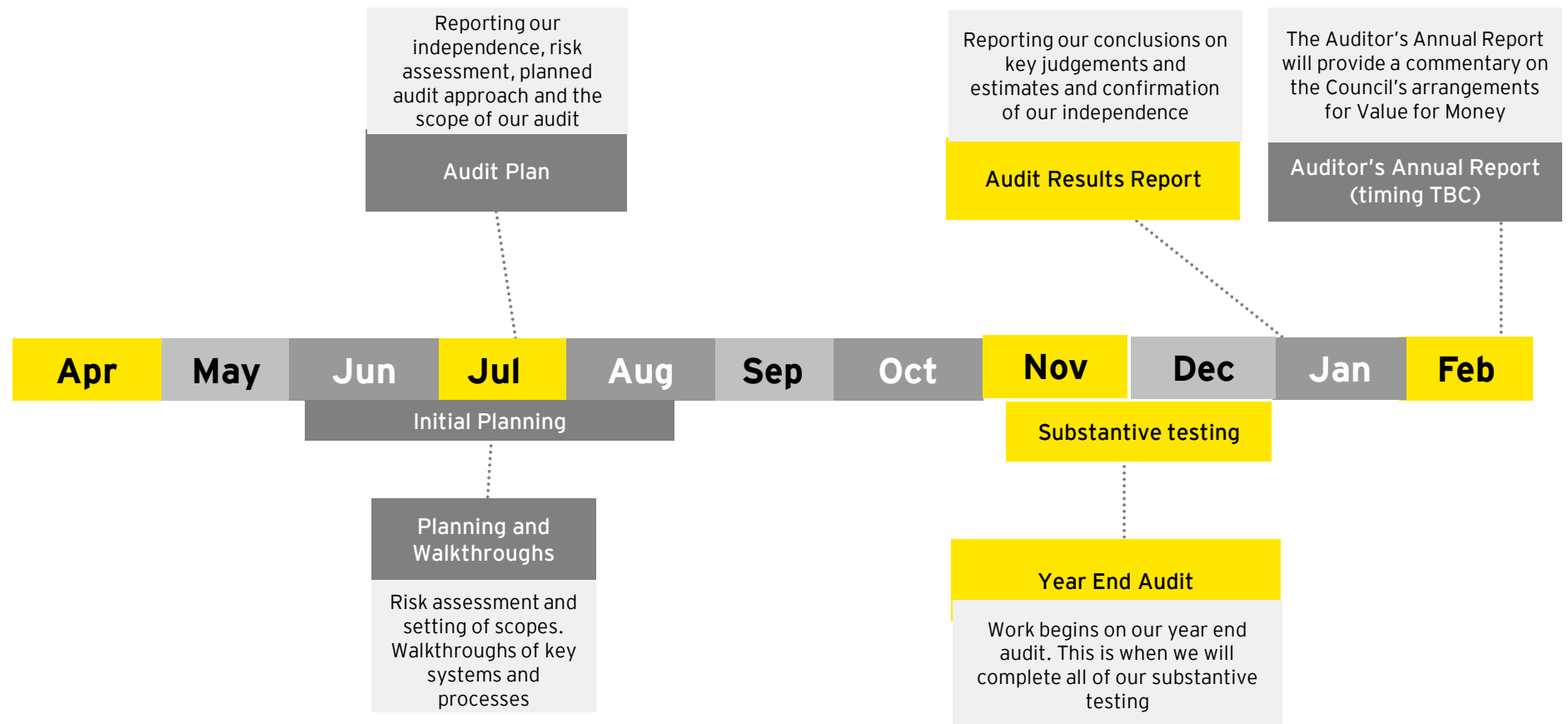


Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. From time to time matters may arise that require immediate communication with the 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.





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
<ul style="list-style-type: none">▶ 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.	<ul style="list-style-type: none">▶ 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 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.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

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

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



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for 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 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'s	£'s	£'s
Total Fee - Code work	61,534	61,534	61,534
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	55,268		55,268
Revised Proposed Scale Fee	116,802	61,534	116,802
Additional work:			
2019/20 Additional Procedures required and as reported within the Annual Audit Letter (Note 2)	-	-	28,483
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: <ul style="list-style-type: none"> Accounting for Covid-19 related Government Grant income, NDR Appeals provision, Collection Fund Accounting, Recoverability of Receivables, Going Concern. 	Note 3	-	
Total fees	TBC	61,534	145,285

All fees exclude VAT

Note 1 - For 2019/20 we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/20 Audit Results Report. Our proposed increase has been discussed with management and is with PSAA for determination. For 2020/21 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and is subject to approval by PSAA Ltd.




Note 2 - The 2019/20 Additional Procedures fee was reported in our Annual Audit Letter. The fee has been discussed with Management and is subject to formal approval by PSAA Ltd.

Note 3 - We cannot quantify the impact of any work resulting as a response to C-19 risks in 2020/21 at this point. We will provide an update on the additional fee implications at the conclusion of the audit.

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 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 - 13 July 2021 - Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 - January 2022




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"> ▶ 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 - January 2022
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - January 2022
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - January 2022
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 - January 2022

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"> ▶ 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 	<p>Audit Plan - 13 July 2021 - Audit Committee</p> <p>Audit Results Report - January 2022</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - January 2022
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit Results Report - January 2022
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - January 2022
Representations	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - January 2022
Material inconsistencies and misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - January 2022
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - January 2022

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.

Purpose and evaluation of materiality

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

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

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