Report to	Audit committee	**Item**
	15 October 2019	5
Report of	Chief finance officer	
Subject	Annual Audit Letter 2018-19	

Purpose

This report presents the annual audit letter.

Recommendation

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

Corporate and service priorities

The report helps to meet the corporate priority people living well.

Financial implications

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officer

Karen Watling, chief finance officer 01603 212440

Background

1. The annual audit letter communicates to the members of Norwich City Council the key issues arising from the audit work carried out for the year ended 31 March 2019 by our external auditors. The letter is brought to the attention of all members and is also made available to external stakeholders, including members of the public, by publication on the council's website alongside the statement of accounts.

Key Findings, control themes and observations

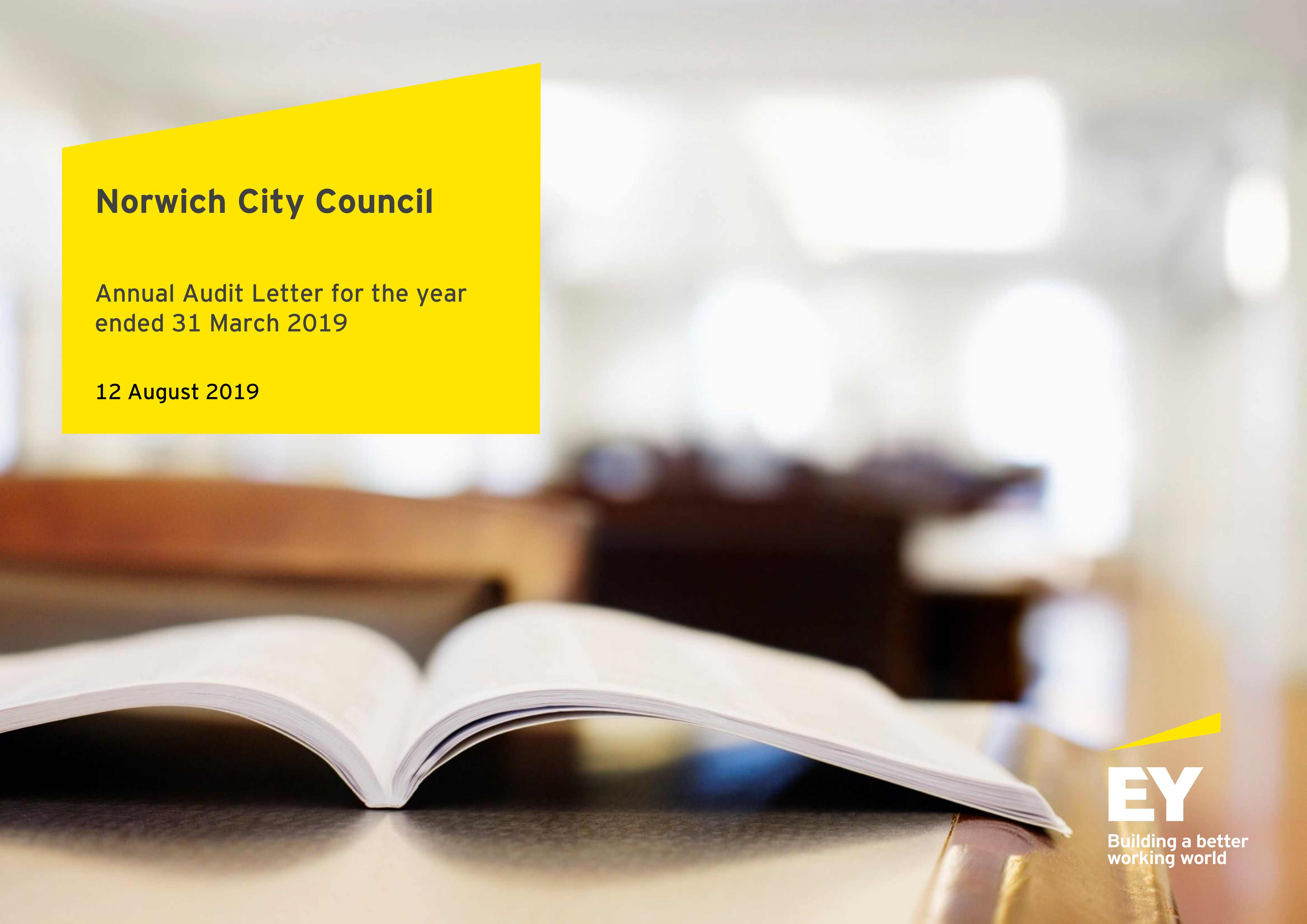
2. The detailed findings of the audit work were reported to this committee on 23 July 2019 in the *2018-19 Audit Results Report*. The key findings, control themes and observations contained in the letter are based on the findings in the audit results report.

Looking Ahead

3. The "Focused on your future" section of the letter draws attention to new accounting standards and summarises the potential implications for local authority accounts. We will work closely with the auditors assess the implications of the standards on the Council accounts ahead of the year end.

Fees Update

4. EY will verbally update the audit committee on any scale fee variations relating to the 2018-19 audit. The final fee for the certification of claims and returns will be confirmed upon completion of the work on housing benefits.



Norwich City Council

Annual Audit Letter for the year ended 31 March 2019

12 August 2019

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Norwich City Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council (and Group) as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 22 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2019.

In January 2020 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 23 July 2019 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019.

Our detailed findings were reported to the 25 July 2019 Governance and Audit Committee.

Misstatements due to fraud or error

Significant Risk

What was 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.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. The specific procedures undertaken to address this are set out on the next page. This page details the standard procedures we undertake to respond to the risk of fraud and error on every engagement.

What did we do and what judgements were we focused on?

In order to address this risk we undertook the following audit procedures:

- Identified fraud risks during the planning stages;
- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Documented our understanding of the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed the accounting estimates for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions.

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business

What are our conclusions?

We did not identify any material weaknesses in controls or evidence of material management override.
We did not identify any instances of inappropriate judgements being applied or any management bias in accounting estimates.
We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

Significant risk

Misstatements due to fraud or error * Capitalisation of revenue spend

Significant Risk

What was the risk?

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

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

What did we do and what judgements were we focused on?

We performed the following procedures:

- Sample tested additions to Property, Plant and Equipment (PPE) to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Used our data analytics tool to identify and test journal entries that move expenditure into capital codes.

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

What are our conclusions?

Testing of additions did not identify any incorrectly capitalised items of expenditure.

The use of our data analytics tool did not identify any unusual journal entries.

Our testing did not identify any inappropriate capitalisation of revenue expenditure.

Significant risk

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

What was the risk?

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

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

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:

- Revenue Expenditure Funded from Capital Under Statute (REFCUS)
- Minimum revenue provision (MRP)

Significant Risk

What did we do and What judgements are we focused on?

We performed the following procedures:

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

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 are our conclusions?

Our work on REFCUS testing did not identify any issues.

Our testing on MRP did not identify any issues.

Financial Statement Audit (cont'd)

Other Areas of Audit Focus

Valuation of land and buildings – inherent risk

What was the risk?

The fair value of property, plant and equipment (PPE) and investment properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do and what judgements were we focused on?

We performed the following procedures:

- We have considered the work performed by the Council's valuers (Norfolk Property Services), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have undertaken sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have considered 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 considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base is not materially misstated;
- We have considered circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

Following full consideration of their work, we placed reliance on the Council's valuation expert. The Council's expert valuer possesses the relevant qualifications and experience, and undertook a review of a selection of assets as instructed. We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable so far.

Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates so far. We identified two errors that in total (0.236 million) were significantly below our performance materiality of £2.514 million. As these amount to below our performance materiality level we considered the overall valuation estimate to not be unreasonable. These errors were not adjusted for within the financial statements.

Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.

Financial Statement Audit (cont'd)

Other Areas of Audit Focus

Pension Liability Valuation – inherent risk

What was the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council.
The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £177.8 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
For 18/19 it is possible these entries will be subject to further volatility as a consequence of Brexit.

What did we do and what judgements were we focused on?

We performed the following procedures:

- Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Norwich City Council;
- Assessed 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 National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Reviewed and tested the accounting entries and disclosures made within the Norwich City Council's financial statements in relation to IAS19; and
- Reviewed the impact of Brexit on the value of Pension Fund assets and considered whether there are any risks of material misstatement arising from this.

What are our conclusions?

We assessed and were satisfied with the competency and objectivity of the Council's actuary. EY pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.

A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. This related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries showed an increase in the liability of £5.36 million to the Council's Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted post balance sheet event. The impact of the Guaranteed Minimum Pension ruling was also taken into account in these adjustments.

Other Areas of Audit Focus

Group Accounts

What was the risk?

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

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

What did we do and What judgements are we focused on?

We have performed the following procedures:

- Reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Norwich City Council group;
- Scoped the audit requirements for NRL based on their significance to the group accounts. Liaising with the external auditor of NRL 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;
- Ensured the appropriate consolidation procedures are applied when preparing the Council group accounts and appropriate disclosures are made within the group accounts.

What are our conclusions?

We have reviewed the Council's group assessment and agree with the conclusion reached.

We have undertaken a review of the subsidiary auditors work following our scoping and issuing of group instructions. We have not identified any issues.

We were satisfied with the consolidation and had no matters to report.

Financial Statement Audit (cont'd)

Other Areas of Audit Focus

New Accounting Standards – inherent risk

What was the risk?

IFRS 9 financial instruments

This new accounting standard changes:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on local authority accounting provides guidance on the application of IFRS 9.

IFRS 15 Revenue from contracts with customers

This new accounting standard covers the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

What did we do and what judgements were we focused on?

We performed the following procedures:

- Assessed the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets such as Norwich Airport investment and Norwich Regeneration Limited for IFRS 9;
- Reviewed the new expected credit loss model impairment calculations for assets for IFRS 9;
- Considered application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation for IFRS 15; and
- Checked additional disclosure requirements.

What are our conclusions?

We did not identify any issues with the implementation of the new accounting standards.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £3.35 million (2017/18: £2.6 million), which is 2% of gross expenditure on provision of services reported in the accounts of £167.5 million adjusted for the surplus on trading undertakings and non domestic rates tariff and levy payment. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £167,000 (2017/18: £130,000)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions and members allowances: reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

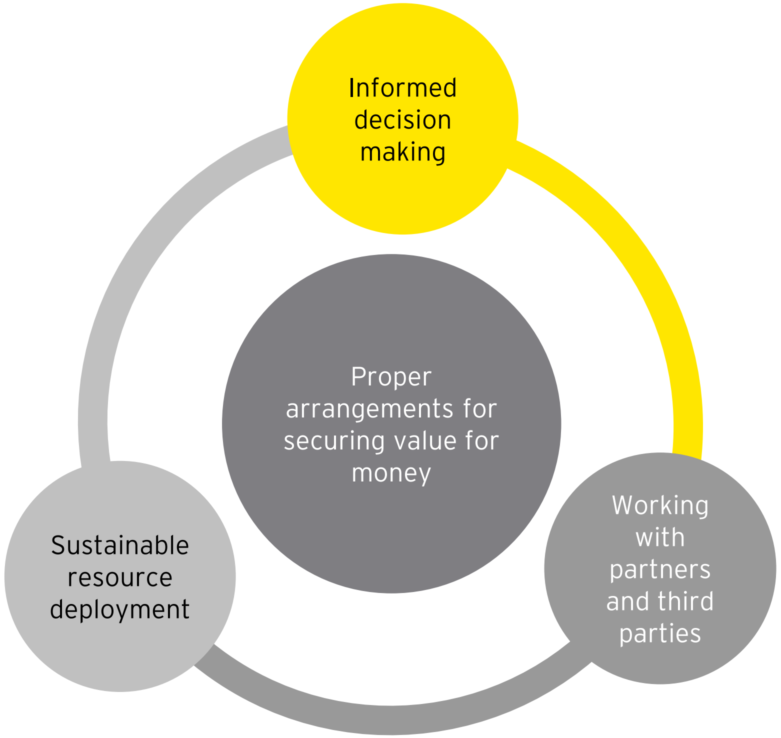
04 Value for Money

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. This is known as our value for money conclusion.

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

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



We identified significant risks in relation to these criteria.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2019.

Value for Money

Value for Money Risks – Risks

What was the significant value for money risk?	What did we do?
Taking Informed Decisions - Commercialisation The Council continues to identify new ways to generate income in the current constrained financial environment. In 2018/19 the Council has increased investments in commercial property and the investment in the Council's own company, Norwich Regeneration Limited. This has included diversifying the investment portfolio and purchasing assets out of area. Entering into commercial activity on an increased scale requires the Council to continue to have appropriate governance and corporate arrangements in place to appropriately plan and deliver these schemes. We have identified a risk due to the increasing activity by the Council in this area.	We undertook the following procedures: - Considered the Council's commercialisation strategy against current guidance provided by CiPFA; - Reviewed purchases in year to ensure they are in line with the updated strategy; - Reviewed the updated NRL business plan; and - Reviewed the returns included within the medium term financial plan from commercial activity. The Council has a Capital Strategy which clearly aligns the commercial property strategy and Norwich Regeneration Limited (NRL) to the Council's objectives. The Council has a robust gateway methodology for all potential acquisitions. We have concluded proper arrangements were in place during 2018/19 for informed decision making.
Deploy resources in a sustainable manner – Medium Term Finances The latest Medium Term Financial Plan (MTFP) shows there is a gap between funding and expenditure in years 2019/20 to 2021/22 of £7 million. Savings plans had yet to be fully developed to address the gap at planning, with the commercialisation agenda above one approach to mitigating the risk. Given the level of the savings required this presents a risk to the Council's financial position.	We undertook the following procedures: - Monitored the financial position for 2018/19. This saw the Council recognise an underspend of £1.5 million and delivered 96% of it's savings targets. The Council has a track record of recording underspends and achieving it's savings targets. The Council has contributed £1.1 million to reserves in year. - We have reviewed the arrangements the Council has for identifying their medium savings requirements through review of the medium term financial strategy. They have modelled savings across different service lines. The Council has already identified £1.9 million of gross savings, with £1 million of this coming from additional income. £0.7 million of the additional income is to come from the commercialisation agenda. - The bridging graph on the next page provides a sensitivity analysis of the past and current activity on future reserves. Overall the Council appears to have a strong track record in identifying and achieving savings targets. It's medium term financial strategy appears sound. The Council does envisage using reserves to support the revenue budget over the next three years, at it's current pace these reserves would remain above the approved minimum level.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Independence
We communicated our assessment of independence in our Audit Results Report to Audit Committee on 23 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

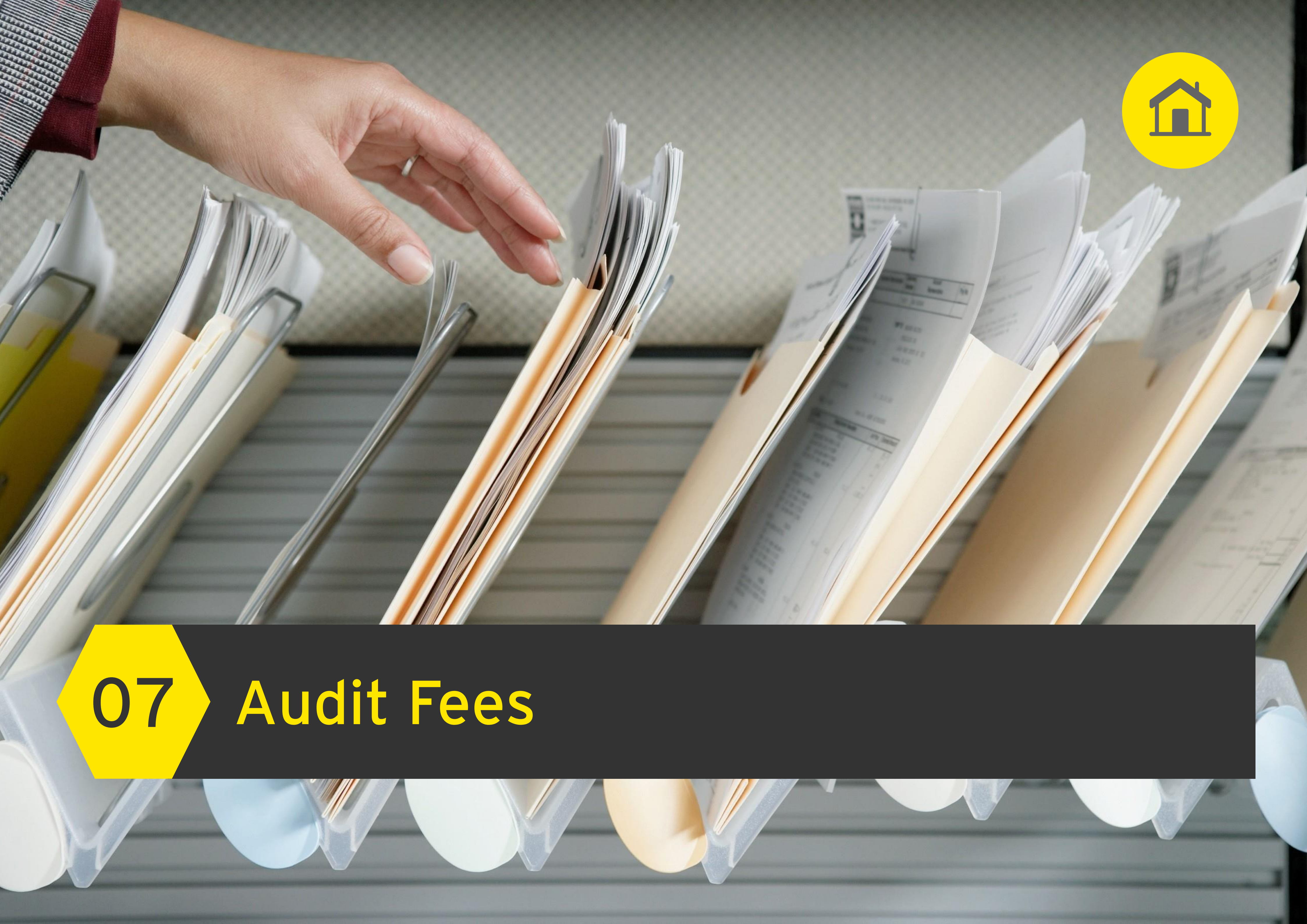
Control Themes and Observations
As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have adopted a fully substantive approach and have therefore not tested the operation of controls. We did not identify any significant deficiencies in internal control during our audit.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.



07 Audit Fees

Audit Fees

Our final fee for 2018/19 as expected, at the scale fee set by the PSAA and reported in our 17 July 2019 Annual Results Report.

Description	Final Fee 2018/19 £'s	Planned Fee 2018/19 £'s	Scale Fee 2018/19 £'s	Final Fee 2017/18 £'s
Total Audit Fee – Code work	TBC – Note 2	61,534	61,534	96,219
Total Audit Fee – Certification of claims and returns	TBC - Note 1	29,260 – Note 1	N/A	39,280

Note 1 – From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.

The Grant Claims line includes the fee agreed for Housing Benefits £25,760 and the estimated fee for the pooling of housing capital receipts claim of £3,500. We will confirm our final fees following the completion of our work and report this to the Audit Committee within our Annual Grant Certification report in January 2020.

Note 2 - The planned fees for 2018/19 may be subject to a scale fee variation due to increases in the scope of the audit as summarised below:

- Audit of the group accounts. This is likely to be between £3,000 to £5,000 due to the scale and complexity of the work.
- Significant risk identified in relation to the value the value for money conclusion.

This additional fee will be discussed with management and is then subject to approval by the PSAA. Once agreed we will report this fee to the Audit Committee.

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ED None

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