Cambridgeshire County Council

Provisional Audit Plan

Year ended 31 March 2021

15 July 2021

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Building a better working world

Audit and Accounts Committee
Cambridgeshire County Council
Shire Hall
Castle Hill
Cambridge
CB3 0AP

15 July 2021

Dear 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 and Accounts 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 Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Audit and Accounts Committeee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Audit and Accounts 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 22 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson

Associate Partner
For and on behalf of Ernst & Young LLP
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit and Accounts Committee and management of Cambridgeshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Accounts Committee, and management of Cambridgeshire County 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 and Accounts Committee, and management of Cambridgeshire County 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 and Accounts 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. As management is in a unique position to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively, we have identified the incorrect capitalisation of revenue and accounting adjustments made in the 'Movement in Reserves Statement' (MiRS) as the key areas where such a risk could manifest itself, as set out below.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our risk due to fraud and error 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 risk due to fraud and error 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 key way of achieving these targets.
Accounting for grants including Covid-19 related Government grants	Significant Risk	Change in risk focus	Our audit procedures in prior years have identified a number of material errors in regards to the accounting treatment and presentation of grants. In 2020-21, 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 Land, Buildings and Investment property	Significant Risk	No change in risk or focus	Property, Plant and Equipment represent a significant balance in the Council's accounts and requires material judgement and estimation techniques to calculate the year-end balances. In 2019-20, material audit differences were identified resulting in adjustments being made to the Council's balance sheet.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for schools that convert to 'Academy' status	Inherent Risk	No change in risk or focus	Schools continue to convert to academy status. This has implications for the treatment of the schools' balances in the financial statements, with the most significant relating to Property, Plant and Equipment.
Private Finance Initiative (PFI)	Inherent Risk	No change in risk or focus	The Council operate three material PFI's which are long term private funded schemes. The Income, Expenditure and Balance Sheet accounting entries in the statement of accounts are based on complex PFI operating and finance models for each scheme. The models also provide the required disclosures of future projected payments.
Pensions valuations and disclosures	Inherent Risk	Decrease in risk assessment (Significant risk in 2019-20)	The current pension fund deficit is a material and sensitive item. The accounting for this scheme involves significant estimation and judgement.
Group Consolidation	Inherent Risk	New Risk	The County Council is the sole and ultimate owner of all parts of the subsidiary "This Land Group". This is consolidated into the group accounts of the Council. There is a risk that this may be done incorrectly as we encountered issues with the consolidation process during the 2019/20 audit.

Overview of our 2020/21 audit strategy

Area of focus		Details
Going concern disclosure	**Area of Audit Focus**	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.
Auditing accounting estimates	Area of Audit 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. As part of this, auditors now 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 may see 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.

Overview of our 2020/21 audit strategy

Materiality – Cambridgeshire County Council – Single Entity financial statements

Planning materiality

£19.8m

Materiality for the Council's financial statements has been set at £19.869 million, which represents 1.8% of the prior years Gross Expenditure on Net Cost of Services plus other Operating Expenditure and Financing and Investment Expenditure. In the prior year we also applied a threshold of 1.8%. We do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality.

Performance materiality

£9.9m

Performance materiality has been set at £9.934 million, which represents 50% of materiality.

Audit differences

£0.9m

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 £0.993 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Accounts 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

Materiality - Cambridgeshire County Council - Group financial statements

Planning materiality
£20m

Materiality for the Council's Group financial statements has been set at £20.063 million, which represents 1.8% of the prior years Gross Expenditure on Group Net Cost of Services plus Financing and Investment Expenditure. In the prior year we also applied a threshold of 1.8%. We do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality.

Performance materiality
£10m

Performance materiality has been set at £10.031 million, which represents 50% of materiality, based on errors in the prior year consolidation.

Audit differences
£1m

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 £1.003 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Accounts Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Provisional Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Cambridgeshire County Council and Group give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money). We 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 National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

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

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

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

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

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as 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 Cambridgeshire County's audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Sappho Powell, a Senior Manager within our Government & Public Sector team, will be replacing Mark Russell in the role of Senior Audit Manager for the engagement.

Mark Hodgson remains in his role as Partner in Charge of the audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?

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

As identified in ISA (UK) 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.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the where the risk of manipulation could specifically manifest itself.

These are set out on the two slides which follow.

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.

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

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

Our response to significant risks (continued)

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

Financial statement impact

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

We consider the risk applies to 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?

The Council is under financial pressure to deliver against the annual 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 the capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

Management could manipulate revenue expenditure by in correctly capitalising expenditure which is revenue in nature and should be a charge to the comprehensive income and expenditure account.

What will we do?

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

- 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;
- Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the secretary of state; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Our response to significant risks (continued)

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

Financial statement impact

We have identified a specific risk of misstatement due to fraud or error that could affect the Income and Expenditure accounts.

We consider the risk applies to accounting adjustments made in the 'Movement in Reserves Statement' and could result in a misstatement of 'Cost of Services' reported in the Comprehensive Income and Expenditure Statement.

What is the risk?

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

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

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

What will we do?

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

- Reconciling entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- Reviewing REFCUS entries in the movement in reserves statement and testing of entries to ensure they meet the accounting definition of REFCUS expenditure;
- 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.

Our response to significant risks (continued)

Significant Risk - Accounting Grants including Covid-19 related Government grants

Financial statement impact

We have identified a risk of Government grant income misstatement that could affect the Income and Expenditure accounts.

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

What is the risk?

Our audit procedures in 2018/19 and 2019/20 on the Council's financial statements have identified a number of audit adjustments in regards to the accounting treatment and presentation of grants.

The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced and ring fenced Covid-19 response grants.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government 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 within the 2020/21 statements.

What will we do?

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

- Reviewing managements assessment of accounting treatment for Covid-19 grants and comparing this to data collected from other Councils in a benchmarking exercise. This will provide a risk assessment and identify where testing should be focused.
- 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; and
- Reconciliation of those primary statement balances to the detailed notes within the statement of accounts to ensure appropriate presentation of grant income and consistency.

We will encourage the finance team to provide its assessment of grant accounting before it prepares the statements so that we can provide an early view on its proposed accounting treatment.

Our response to significant risks (continued)

Significant Risk - Valuation of land and Buildings and Investment Properties

Financial statement impact

The fair value of Property, Plant and Equipment (PPE) 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 statement of financial position.

What is the risk?

The external valuer will apply a number of complex assumptions and judgements assess the Councils assets to determine their value. Some of the issues they will consider include whether there is any indication of impairment, increases in value and changes to useful lives.

As the Council's asset base is material, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.

Our audit procedures in 2019/20 identified a number of material audit differences in regards to the work of the external valuer.

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.

What will we do?

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

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering the annual cycle of valuations to ensure that assets have been valued, as a minimum, within a 5 year rolling programme as required by the Code. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Where there are significant changes in valuation, or a lack of change where a movement is expected, we may need to engage our own EY valuation experts to perform a review of valuation assumptions and methodologies, particularly on those more complex methodologies such as depreciated replacement cost;
- We will stratify the population depending on valuation characteristics and apply the significant risk status as appropriate to that stratification; and
- Testing that 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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Accounting for schools that convert to 'Academy' status – Inherent Risk</u> Schools have continued to convert to Academy status. This has implications for the treatment of the schools' balances in the financial statements, with the most significant relating to property, plant and equipment. There is a risk that these schools' transactions and balances may be either incorrectly included or omitted. Other balances relating to debtors, creditors, cash balances and income (including dedicated schools grant) and expenditure within the Council's accounts are considered to be lower risk due to their size and nature.	In order to address this risk we will carry out a range of procedures including: ▶ Review the arrangements for agreeing with the school assets, liabilities and balances for transfers; and ▶ Review how the transfers have been accounted for, including reconciling the Schools that have converted to academies during the year to the various systems including those that have been disposed of in the Fixed Asset Register during the year.
<u>Pensions valuations and disclosures – Inherent Risk</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body The 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. Accounting for this scheme involves significant estimation and judgement. At 31 March 2020 this totalled £491.615 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▶ Liaise with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Cambridgeshire County Council; ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PwC – Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Private Finance Initiative – Inherent Risk The Council operate three material PFI's which are long term private funded schemes. The Income, Expenditure and Balance Sheet accounting entries in the statement of accounts are based on complex PFI operating and finance models for each scheme. The models also provide the required disclosures of future projected payments.	Our approach will focus on: ▸ Performing testing to ensure that in year payments included in the PFI models are accurate and correctly accounted; ▸ Confirming consistency of the PFI models to the financial statements; and ▸ Comparing the PFI models to those we reviewed during 2018/19. Where changes have been identified we may be required to engage EY specialists to perform a review of the models.
Group Consolidation – Inherent Risk The Council has previously incorporated 'This Land Limited', 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 this can be a complex area of accounting requiring 'This Land Limited' to be consolidated with the Council's accounts to create the Group Accounts. There have been a number of issues with the consolidation in the previous period, and we understand that 'This Land Limited' is moving to a coterminous year end for 2020/21, so we need to ensure that the consolidation reflects this. We are reliant on assurances from the auditor of 'This Land Limited' (RSM).	In order to address this risk we will carry out a range of procedures including: ▸ Review the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Cambridgeshire County Council Group; ▸ Scope the audit requirements for 'This Land Limited' based on their significance to the group accounts. Liaising with the external auditor of 'This Land Limited' (RSM) 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 the appropriate consolidation procedures are applied when preparing the Council's 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?
Going Concern Compliance with ISA 570 – Area of Audit Focus There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry our 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. 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. In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.	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: ▸ 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; ▸ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties; We will discuss the detailed implications of our review with management and provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.

Other areas of audit focus (continued)

What is the risk/area of focus?

Auditing accounting estimates – Area of Audit 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 will affect the nature and extent of information that we 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 will 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 will 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 contradicts them.
- We will 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 year's as a result of the above procedures.

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.

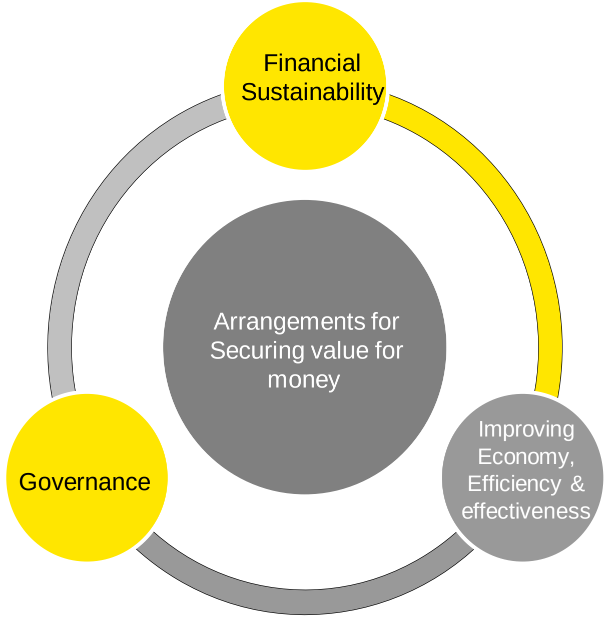
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its 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 and Accounts 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.

The predecessor audit has not yet concluded on their 2017/18 Value for Money Conclusion. Whilst we have commenced our 2018/19 and 2019/20 Value for Money work we have not yet concluded on that work.

We have not commenced our VFM risk assessment for 2020/21 at the time of this Provisional Audit Plan. We will update a future Audit and Accounts Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.

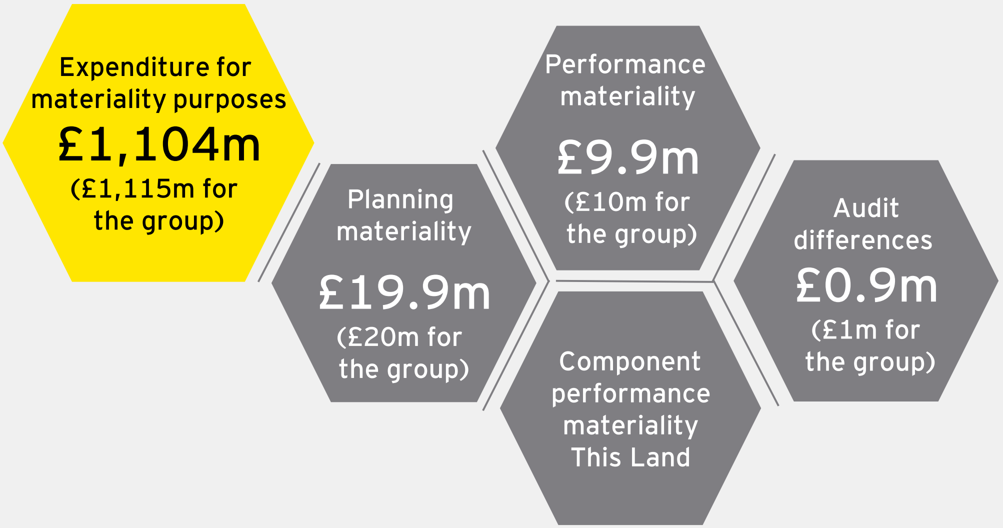
04 Audit materiality

Audit materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £19.9 million (£20 million for the group). This represents 1.8% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure. The Council is a major local audit based on its size, we have considered its overall risk profile and public interest in comparison to other Council's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality.

Materiality 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 and Accounts 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 £9.934 million (£10.032 million for the group) which represents 50% of planning materiality, which is consistent with the prior year. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of planning materiality.

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

Audit difference threshold – we propose that misstatements identified below £0.9 million (£1 million for the group) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet 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 and Accounts Committee, or are important from a qualitative perspective.

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

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

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK 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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

Our intention is to carry out a fully substantive audit in 2020/21 as we believe this to be the most efficient audit approach. 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 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.

Scoping the group audit

Group scoping

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

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

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

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

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

Scope definitions

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

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

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

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

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

Scoping the group audit (continued)

Coverage of Revenue and Expenditure

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

Expenditure — **1.1%** of the group's provision of services expenditure will be covered by Specific scope audits, with the remainder (98.9%) covered by the single entity's audit.

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

This Land Limited will be audited by RSM, a non-EY member firm, who will confirm their independence via our group instructions.

Key changes in scope from last year

There have been no changes in scope from last year. The Council, as single entity, remains as our full scope audit.

This Land Limited remains a non-significant component, categorised as Specific scope.

Group audit team involvement in This Land Limited component audit

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

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

06 Audit team

Audit team and use of specialists

Audit team

The engagement team is led by Mark Hodgson, who has significant experience in Local Government audits, and especially on County Council audits. Mark is supported by Sappho Powell, a Senior Manager within our Government & Public Sector team, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Finance Team. The day to day audit team will be lead by Anastasia Luhktan, Senior.

Specialists

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

Area	Specialists
Valuation of Land and Buildings	Bruton Knowles (the Council's property valuer). We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuary, PwC (Consulting Actuary to the PSAA) and Hymans Robertson (Council's Actuary).
Financial instrument fair value disclosures	Link (Council's treasury management adviser)
Private Finance Initiatives (PFI)	EY PFI Specialist

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.

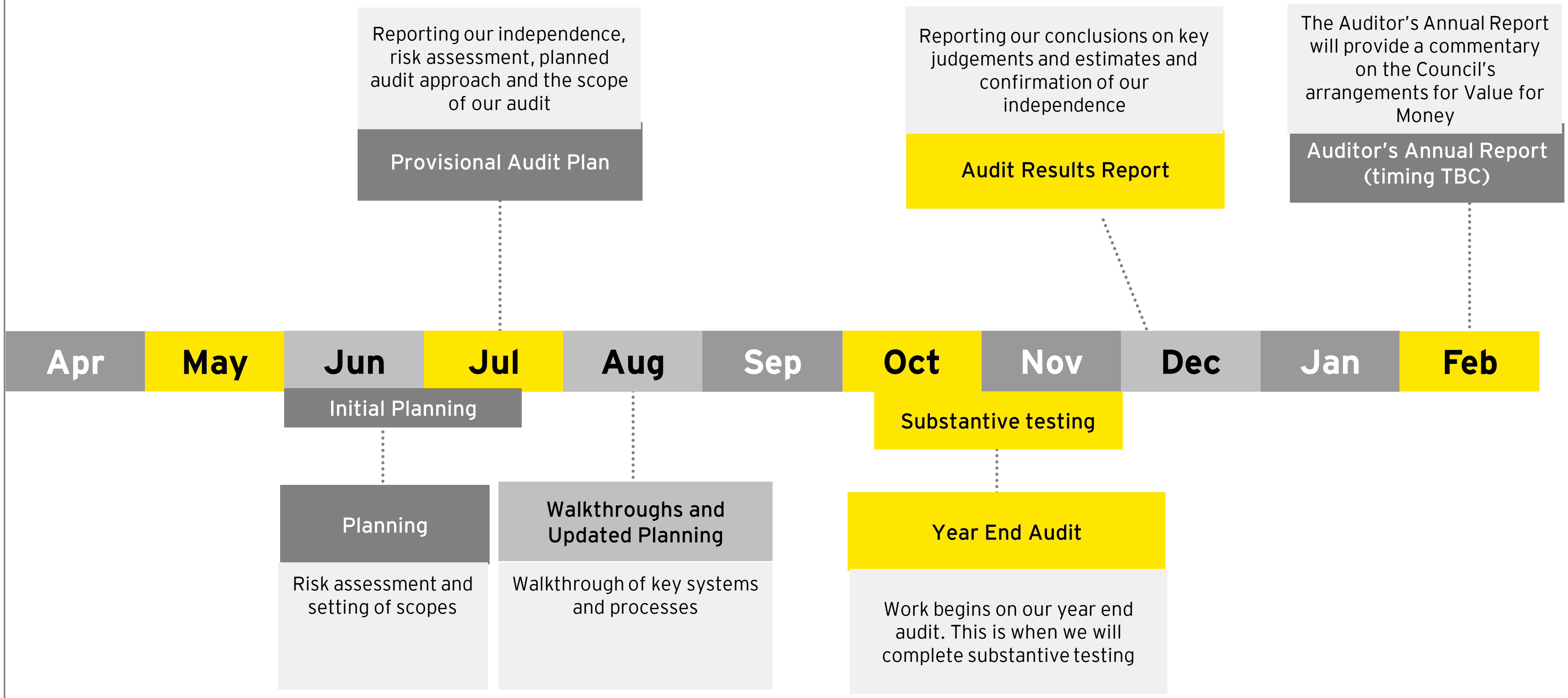
07 Audit timeline

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of 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. At the time of writing, the current ratio of non-audit fees to audit fees is 0%.

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.

Independence

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 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 end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/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
	£		£
Total Fee – Code work	72,427	72,427	72,427
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	55,837	-	55,837
Revised Proposed Scale Fee (see Note 1)	**128,264**	**72,427**	**128,264**
Additional work:			
2019/20 Additional Procedures required for audit opinion purposes – Note 2	-		53,978
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: • Accounting for Covid-19 related Government Grant income.	TBC		
Total fees	**TBC**	**72,427**	**182,242**

All fees exclude VAT

Note 1 - For 2019/20 and 2020/21, 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 Plan. Our proposed increase has been discussed with management and is with PSAA for determination.

Note 2 – We have discussed with management which is subject to determination by PSAA Ltd, a scale fee variation of £53,978 for the 2019/20 Financial Statement Audit. The scale fee variation relates to additional risks and procedures required in our 2019/20 audit of the Council's Statement of Accounts, including:

- Assessment of Going Concern in light of Covid-19
- Increased procedures over PPE and Investment Property valuations including the use of an internal specialist (Significant Risk)
- Pensions (Significant Risk)
- Accounting for grants (Significant Risk)
- Dedicated schools grant
- Group procedures in regards to the consolidation of This Land Limited
- Additional audit work in regards to Cash, Investments, Borrowing and creditors

In addition, we are yet to complete the work for Value for Money for 2019/20 which will also require a separate scale fee variation alongside our work on Whole of Government Accounts, which we have recently completed and submitted.

Appendix B

Required communications with the Audit and Accounts Committee

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

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Audit and Accounts 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 (Provisional) - 22 July 2021 VFM Risk Assessment - September 2021
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report - November/December 2021 (timing TBC) Annual Auditors Report (including VFM Commentary) - February 2022

Appendix B

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit Results Report – November / December 2021 (timing TBC)
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management	Audit Results Report – November / December 2021 (timing TBC)
Fraud	▶ Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud	Audit Results Report – November / December 2021 (timing TBC)
Related parties	▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – November / December 2021 (timing TBC)

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – November / December 2021 (timing TBC) Audit Plan (Provisional) – 22 July 2021
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – November /December 2021 (timing TBC)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit and Accounts 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 – November / December 2021 (timing TBC)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – November / December 2021 (timing TBC)

Appendix B

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Results Report - November / December 2021 (timing TBC) Audit Plan (Provisional) - 22 July 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - November / December 2021 (timing TBC)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - November / December 2021 (timing TBC)
Auditors report	▸ 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 - November / December 2021 (timing TBC)
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Results Report - November / December 2021 (timing TBC) Audit Plan (Provisional) - 22 July 2021

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 and Accounts 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.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Council 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.