

**AUDIT COMMITTEE**

**24th November 2020**

**Subject: EY Audit Planning Report Year Ended 31 March 2020**

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**1. Purpose of Report**

To present the External Auditor's Audit Planning Report for the year ended 31 March 2020 to the Audit Committee.

**2. Background**

As required by the National Audit Office's 2015 Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk

A senior representative of EY (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions. (A copy of the report will be circulated with the agenda for the meeting)

**3. Corporate Implications**

**Financial Implications**

The prescribed requirements of what needs to be undertaken by the external auditor are defined in the National Audit Office's 2015 Code of Audit Practice and the fee scales are defined by Public Sector Audit Appointments (PSAA) Ltd. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Planning Report for the year ended 31 March 2020.

The cost to the Council of external audit for 2019/20 is planned to be £43,324 for the Code Audit.

**Legal Implications**

The Council is required to have an external audit of its activities that complies 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.

By considering this report, the Committee can satisfy itself that this requirement is being discharged.

### **Human Resources and Equality Implications**

None

### **IT and Asset Management Implications**

None

#### **4. Links to Council's Priorities, Objectives and Targets**

Audit work contributes to the delivery of all the Council's Priorities, Objectives and Targets.

#### **5. Timescale for Implementation**

The Audit Planning Report sets out the timescales within which the work will be delivered.

#### **6. Risk Factors**

Poor performance by the Council in the areas subject to review could result in either a qualified audit opinion or value for money conclusion and may also impact adversely on any corporate assessment.

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the Code.

### **Recommendation**

**The Audit Committee notes EY's Audit Planning Report for the year ended 31 March 2020.**

### **Background Papers**

- National Audit Office's 2015 Code of Audit Practice
- National Audit Office's Work Programme and Scales of Fees 2019/20

### **Attachments**

- Audit Planning Report for the year ended 31 March 2020.

**Report Author: Debbie Hanson, Associate Partner, EY**



# **Castle Point Borough Council Audit planning report**

Year ended 31 March 2020

28 May 2020

Private and Confidential

28 May 2020



Castle Point Borough Council  
Kiln Rd,  
Thundersley,  
Benfleet, SS7 1 TF

Dear Audit Committee Members

#### 2019/20 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This 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. The planning of our audit strategy and risk assessment was substantially completed prior to the unprecedented events of the Covid-19 outbreak and social distancing measures introduced in the United Kingdom from the end of March 2020. We have revisited and adapted our audit approach to take account of the implications and risks from Covid-19, as we see them, for the preparers of financial statements and auditors of Local Government bodies. We have had initial discussions with the Council's finance team on their response and ongoing strategic, operational and financial impacts. We will continue to keep this under review during the course of our audit and update our audit risk assessment and approach as appropriate. At this stage, we expect to be undertaking additional audit procedures in relation to a number of areas including the valuation of the Council's Investment properties, bad debt provision and our assessment of management's assertions and disclosures associated with preparing the accounts as a going concern in accordance with the Financial Reporting Council's Statement of Recommended Practice Note 10 for audit of public sector bodies in the United Kingdom.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson, 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 PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Castle Point Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Castle Point Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Castle Point Borough 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.



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# Overview of our 2019/20 audit strategy



## Overview of our 2019/20 audit strategy

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

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	<p>In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure.</p> <p>The capital programme budget for 2019/20 was set at £4.8 million. Therefore, we have identified this as a significant fraud risk.</p>
Valuation of Knightswick Shopping Centre	Significant risk	New risk for 2019/20	<p>In 2019/20 the Council acquired Knightswick Shopping centre located in Canvey Island. The shopping centre has been revalued in line with the Council's valuation policies at £11.05 million representing a significant asset on the balance sheet.</p> <p>Material judgements are required to calculate year-end valuations and due to the size and retail nature of this property we consider it's value to represent a significant risk to the Council's 2019/20 financial statements.</p>
Investment property valuation	Significant risk	New risk for 2019/20	<p>The impact of Covid-19 is expected to be greatest for properties measured at Fair Value (i.e. investment properties) since rental income may fall as tenants' potentially default on their rents and seek to negotiate rent reductions as they can no longer trade effectively. The Council revalued all its Investment properties as at 1st April 2019 and the total valuation was £2.8 million. As this balance is material we have identified the risk of material misstatement of the value of these assets as a significant risk in the Council's 2019/20 financial statements.</p>

## Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation and disclosures	Higher inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>
Provisions valuation (NNDR appeals provision and bad debt provision)	Higher inherent risk	Change in risk	<p>Each year the Council is required to estimate the liability arising from refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. New information is provided by the Valuation Office each year on successful and unsuccessful appeals to allow the Council to make a judgement on the provision required. The calculation of the provision is performed in house by the Council - it is open to judgement and relies on a number of assumptions. In 2018/19 the provision was £1.07 million representing a significant liability on the balance sheet.</p> <p>Each year the Council makes an allowance for debts that may not be recovered. In 2018/19 this provision was £1.97 million representing 34% of the Council's short term debtors. In the current environment, we expect that additional provisions may need to be made to account for the economic difficulties some residents and suppliers may be facing as a result of Covid-19. The provision is open to judgement and estimation which needs to reflect the current economic uncertainty and we expect the provision will increase for the year ended 31 March 2020.</p>
Land and buildings Valuation	Higher inherent risk	No change in risk or focus	<p>Land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that these balances may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>

## Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Going concern assessment and disclosures	Higher inherent risk	New Risk for 2019/20	<p>Covid-19 has created a number of financial pressures throughout Local Government and is creating financial stress. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p> <p>The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.</p>
Covid-19 impacts	Higher inherent risk	New Risk for 2019/20	<p>The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Authority's financial position and performance.</p> <p>Within this Plan, we have identified those areas of the financial statements which we have currently identified as being the main areas impacted by Covid-9. However we recognise that due to the uncertainty about the duration and extent of disruption, there may be other risks which emerge during the audit process. We have included details of some of the potential areas in this Plan and will update the Audit Committee if we identify further areas.</p>

## Overview of our 2019/20 audit strategy

### Materiality

Planning  
materiality

£1.028m

Materiality has been set at £1.028 million, which represents 2% of the prior years gross expenditure on provision of services. This is consistent with our prior year approach. We will revisit the appropriateness of this level when we receive the draft financial statements and our understanding at that stage of the implications from Covid-19 on the Council's viability and investments.

Performance  
materiality

£0.771m

Performance materiality has been set at £0.771 million. Which represents 75% of planning materiality. We will revisit the appropriateness of this level when we receive the draft financial statements. This will take account of our assessment of the control environment for the preparation of the accounts and supporting working papers as a result of social distancing measures introduced and those which remain in force during the course of the audit in response to Covid-19.

Audit  
differences

£51k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £51,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee. This level is driven by our calculation of planning materiality and will change if this is revised during the course of the audit.

# Overview of our 2019/20 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Castle Point Borough Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Castlepoint's audit, we will discuss these with management as to the impact on the scale fee.

## Audit team changes

Key changes to our team for 2019/20, are summarised below.

Chloe Weaver has taken over from Dean Bardrick as the Audit Manager for the planning and interim stages of the audit whilst Dean is on shared parental leave. It is currently anticipated that Dean will resume the Audit Manager role for the final accounts visit when he returns in August 2020.



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## Audit risks



## Audit risks

### Our response to significant risks

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

#### Misstatements due to fraud or error

##### What is the risk?

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

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

##### What will we do?

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

- 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.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates, such as bad debt and business rate appeals provision, for evidence of management bias, and
- Evaluating the business rationale for any significant unusual transactions.

In addition to our overall response, we consider where this risk may specifically manifest itself and identify separate fraud risks below.

## Our response to significant risks (continued)

### Incorrect capitalisation of revenue expenditure \*

#### Financial statement impact

Misstatements that occur in relation to the risk incorrect capitalisation of revenue expenditure could affect the comprehensive income and expenditure account and the balance sheet by decreasing revenue expenditure and increasing capital expenditure.

The Council's budgeted Capital programme for 2019/20 is £4.1 million

Capital additions in 2018/19 were £1.24 million

#### What is the risk?

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.

We have assessed the following as an area open to manipulation:

- capitalisation of revenue expenditure on property, plant and equipment (PPE) given the extent of the Council's capital programme.

#### What will we do?

We will undertake additional procedures to address the specific risk we have identified:

- Sample testing additions to property, plant and equipment, at a lower testing threshold to ensure 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;
- Extending our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we will review unusual journals related to capital expenditure posted around the year-end; for example where the debit is to capital expenditure/PPE additions and the credit to income and expenditure

## Our response to significant risks (continued)

### Valuation of Knightswick Shopping Centre

#### Financial statement impact

Misstatements that occur in relation to the valuation of the Knightswick Shopping Centre could over/understate the Council's property asset balance and revaluation reserve balance on the balance sheet. There could also be an impact on surplus/deficit on revaluation of non-current assets within the comprehensive income and expenditure statement.

#### What is the risk?

In 2019/20 the Council acquired Knightswick Shopping centre located in Canvey Island. The shopping centre has been revalued in line with the Council's valuation policies at £11.05 million as at 31<sup>st</sup> December 2020.

The asset represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end valuation of the asset. As the asset is significant in value, and the outputs from the valuer are subject to estimation, there is a significant risk that the valuation may be under/overstated or the associated accounting entries are incorrectly posted.

#### What will we do?

We will:

- Assess the classification of the asset and whether the appropriate valuation basis has been applied.
- Consider the work performed by the Council's external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Use of our own experts to;
  - Review the methodology and assumptions used by the valuer in determining the valuation of Knightswick Shopping Centre;
  - Test key asset information used by the valuers in performing their valuation (e.g. floor plans and income levels to support valuations);
- Test accounting entries, ensuring these have been correctly processed in the financial statements.
- As we have identified a higher degree of risk in relation to the valuation of property assets as at 31 March 2020, we will also consider how the Council's valuer has addressed the impact of Covid-19 in the year-end valuation of this assets and their assessment of any impairment.

## Our response to significant risks (continued)

Investment property valuation	What is the risk?	What will we do?
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the valuation of the investment property could over/understate the Council's investment property balance and revaluation reserve balance on the balance sheet. There could also be an impact on surplus/deficit on revaluation of non-current assets within the comprehensive income and expenditure statement.</p>	<p>The Council had all Investment properties revalued as at 1st April 2019 and the total valuation was £2.8 million.</p> <p>These assets represent a significant balance in the Council's accounts and are subject to valuation changes and impairment review.</p> <p>The impact of Covid-19 is expected to be greatest for properties measured at fair value (i.e. investment properties) since rental income is expected to fall as tenants' default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively.</p> <p>Although the Council has used a valuation date of the 1<sup>st</sup> April 2019 the valuer has not updated the valuation to reflect the 31<sup>st</sup> March 2020 position.</p> <p>As this balance is material we have identified the risk of material misstatement of the value of these assets as a significant risk in the Council's 2019/20 financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>➤ Assess the classification of the assets and whether the appropriate valuation basis has been applied.</li> <li>➤ Consider the work performed by the Council's external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li> <li>➤ Use of our own experts to;             <ul style="list-style-type: none"> <li>➤ Review the methodology and assumptions used by the valuer;</li> <li>➤ Sample test key asset information used by the valuers in performing their valuation</li> <li>➤ Investigate any significant variation.</li> </ul> </li> <li>➤ Test accounting entries, ensuring these have been correctly processed in the financial statements.</li> <li>➤ As we have identified a higher degree of risk in relation to the valuation of investment property assets as at 31 March 2020, we will also consider how the Council's valuer has addressed the impact of Covid-19 in the year-end valuation of this assets and their assessment of any impairment.</li> </ul>

## Audit risks

### Other areas of audit focus

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

#### What is the risk?

##### Land and buildings valuations - Higher inherent risk

The fair value of land and buildings 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 will we do?

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

- ▶ Evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- ▶ Ensure the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- ▶ Consider 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);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for property, plant and equipment and annually for investment property assets 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;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

We will also consider how the Council's valuer has addressed the impact of Covid-19 on the year-end valuation of assets and assessment of impairments and consider whether we need to engage EY valuation specialists to assist the audit team in relation to this assessment.

## 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?
<p><b>Pension liability valuation – Higher inherent risk</b></p> <p>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 Essex County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £30.7 million.</p> <p>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.</p> <p>An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Essex Pension Fund, for example private equity investments where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Liaise with the auditors of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to Castle Point Borough Council;</li> <li>▶ Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;</li> <li>▶ Review Essex County Council draft financial statements and compare the year end asset values with the estimate used by the actuary in producing the Council's IAS 19 report and consider the impact on the Council's pension fund liability and IAS19 disclosures;</li> <li>▶ Assess the results of the triennial valuation, including the assumptions used and the impact on the Council's pension liability;</li> <li>▶ Engage early with the Council, and their actuary, to understand any ongoing impact of the McCloud judgement and GMP rulings on the IAS19 liability; and</li> <li>▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> <li>▶ Consider the nature and value of level 3 investments held by Essex Pension Fund and the proportion of the overall Fund relating to Castle Point in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2020.</li> </ul>



## Audit risks

### Other areas of audit focus

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

#### What is the risk?

#### What will we do?

##### Provision valuation - Higher inherent risk

###### *NNDR appeals provision:*

Each year the Council is required to estimate the liability arising from refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. New information is provided by the Valuation Office each year on successful and unsuccessful appeals to allow the Council to make a judgement on the provision required.

The calculation of the provision is performed in house by the Council - it is open to judgement and relies on a number of assumptions. In 2018/19 the balance was £1.07 million representing a significant liability on the balance sheet.

###### *Bad debt provision:*

Each year the Council makes an allowance for debts that may not be recovered. In 2018/19 this provision was £1.97 million representing 34% of the Council's short term debtors.

In the current environment, we expect that additional provisions may need to be made to account for the economic difficulties some residents and suppliers may be facing as a result of Covid-19.

The provision is open to judgement and estimation which needs to reflect the current economic uncertainty and we expect the provision will increase for the year ended 31 March 2020.

###### We will:

- ▶ Review the calculation of the business rates appeals provision and assess the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37.
- ▶ Sample test appeals included in the provision to determine that the rateable value is accurate and the provision reasonable.
- ▶ Perform completeness testing over the VOA data used to calculate the provision.

###### We will:

- ▶ Review the calculation of the bad debt provision, and assess the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37.
- ▶ Challenge management assumptions, particularly where historic collection rates have been used as a prediction for future collectability.
- ▶ Compare provisions made in 2018/19 against provisions made in 2019/20 and obtain robust explanations for movements in provisions.
- ▶ Review and assess the accuracy and completeness of any disclosures related to estimation uncertainty in the accounts.

## Audit risks

### Other areas of audit focus

What is the risk/area of focus?	What will we do?
<p><b>Going concern disclosures: Higher inherent risk</b></p> <p>Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: <i>Audit of financial statements of public sector bodies in the United Kingdom</i>, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p> <p>The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.</p>	<p>In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.</p> <p>We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.</p> <p>We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).</p> <p>Our audit procedures to review these will include consideration of:</p> <ul style="list-style-type: none"><li>▶ Current and developing environment;</li><li>▶ Liquidity (operational and funding);</li><li>▶ Mitigating factors;</li><li>▶ Management information and forecasting;</li><li>▶ Sensitivities and stress testing; and</li><li>▶ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.</li></ul>



## Audit risks

# Other areas of audit focus

### Impact of Covid-19

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

- ▶ **Revenue recognition** - there may be an impact on income collection (council tax and business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to Covid-19.
- ▶ **Tangible assets** - there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The Council may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- ▶ **Pensions** - volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- ▶ **Holiday and sickness pay** - the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- ▶ **Government support** - any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- ▶ **Annual Governance Statement** - the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, later in our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce the financial statements and our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.



03

## Value for Money Risks





# Value for Money

## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

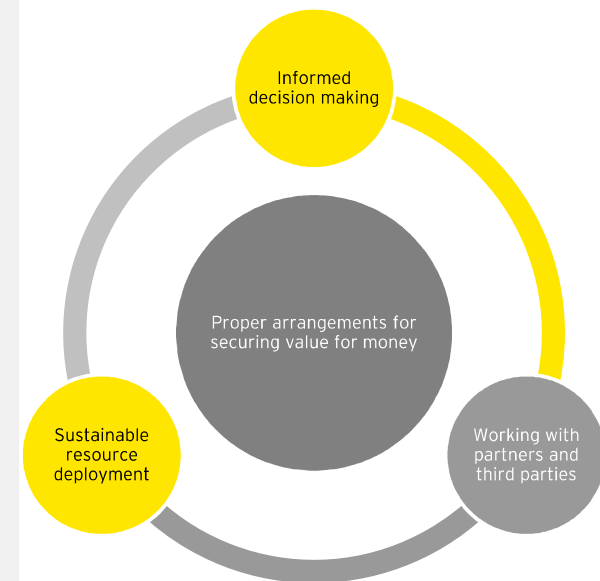
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 value for money assessment (vfm) in the light of Covid-19. This clarified that in undertaking the vfm assessment auditors should consider Councils' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk. We did not identify any issues which indicated it would be appropriate to recognise a significant risk in relation to the Council's arrangements as a result of Covid-19 in 2019/20.

Our risk assessment has considered both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. In 2019/20 we identified the development of the Local Plan and decision making and governance arrangements around the acquisition of Knightswick Shopping Centre, as significant risks as outlined on the following slide.





## Value for Money Areas of Focus

### What are the areas being monitored for VFM?

#### Development of the Local Plan

In 2018/19 we identified the development of the Local Plan as a significant value for money risk following a letter received by the Council in November 2017 from the Secretary of State about lack of progress in adopting a local plan.

Through 2018/19 a new local plan was developed, but was not approved. In April 2019, the Local Government Association undertook a Planning Improvement Peer Challenge and highlighted the preparation of a new Local Plan as a key priority to provide a clear policy framework for decision making as well as recommendations for changes to process and governance arrangements.

Since the peer review a new Local Plan has been developed and in October 2019 the Council agreed to proceed with the pre-submission Local Plan, however this is still subject to approval by the Secretary of State. This uncertainty around the Local Plan leads to increased risk of speculative development and planning by appeal, as well as not providing certainty for residents and businesses.

#### Knightswick Shopping Centre acquisition

In October 2019, the Council purchased Knightswick Shopping Centre for a sum of £11.23 million which has largely been funded from borrowing. It is important that the Council undertook an appropriate risk and financial assessment and developed a robust business case in relation to this significant acquisition. It is also crucial that the decision was reviewed and approved in line with the Councils' constitution and governance arrangements to ensure accountability, responsibility, effective monitoring and authority for decision making.

### What arrangements does the risk affect?

- Take informed decisions

- Take informed decisions

### What will we do?

Our approach will focus on:

- The actions being take to progress the adoption of a Local Plan
- Follow up of recommendations from the peer review
- The level of engagement with Members and the Secretary of State on this issue.

Our approach will focus on review of:

- The business case for the acquisition
- The financial and risk assessments undertaken
- Any external advice obtained in relation to the acquisition
- Key decisions in purchasing the asset.
- Governance arrangements in place



04

## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2019/20 has been set at £1.028 million. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

### Key definitions

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

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.771 million which represents 75% of planning materiality. Only minor disclosure issues found in last years audit therefore choosing 75% is appropriate, and does not expose us to additional risks of failing to identify material misstatements

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

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

**Specific materiality** - We have set a materiality of £1k for audit fees. For members allowances, senior officers remuneration and exit packages all errors will be considered material which would move an employee into another band. For related party transactions we will consider any errors on a case by case basis, taking into account the likely materiality of any error to the related party rather than the Council.



## 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).

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

##### Procedures required by standards

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

##### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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

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

# Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. Although we are therefore not intending to rely on individual system controls in 2019/20, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

### Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

### Internal Audit:

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.



06

## Audit team



## Audit team

### Audit team structure:



### Audit team changes

The key change to our team is that Chloe Weaver has taken over from Dean Bardrick as the Audit Manager whilst he is on shared parental leave. Dean will be returning to work in August 2020 and we anticipate that he will takeover from Chloe as Manager on the audit at this time.

\* Key Audit Partner

## Use of specialists

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

Area	Specialists
Valuation of land and buildings and investment properties	Management's specialist: Wilks Head and Eve EY Real Estates (Valuers) - for investment properties and if required on other land and buildings
Pensions disclosure	Management's specialist: Barnett Waddingham (Actuary to Essex County Council Pension Fund) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team (Actuaries)

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

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

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



07

## Audit timeline





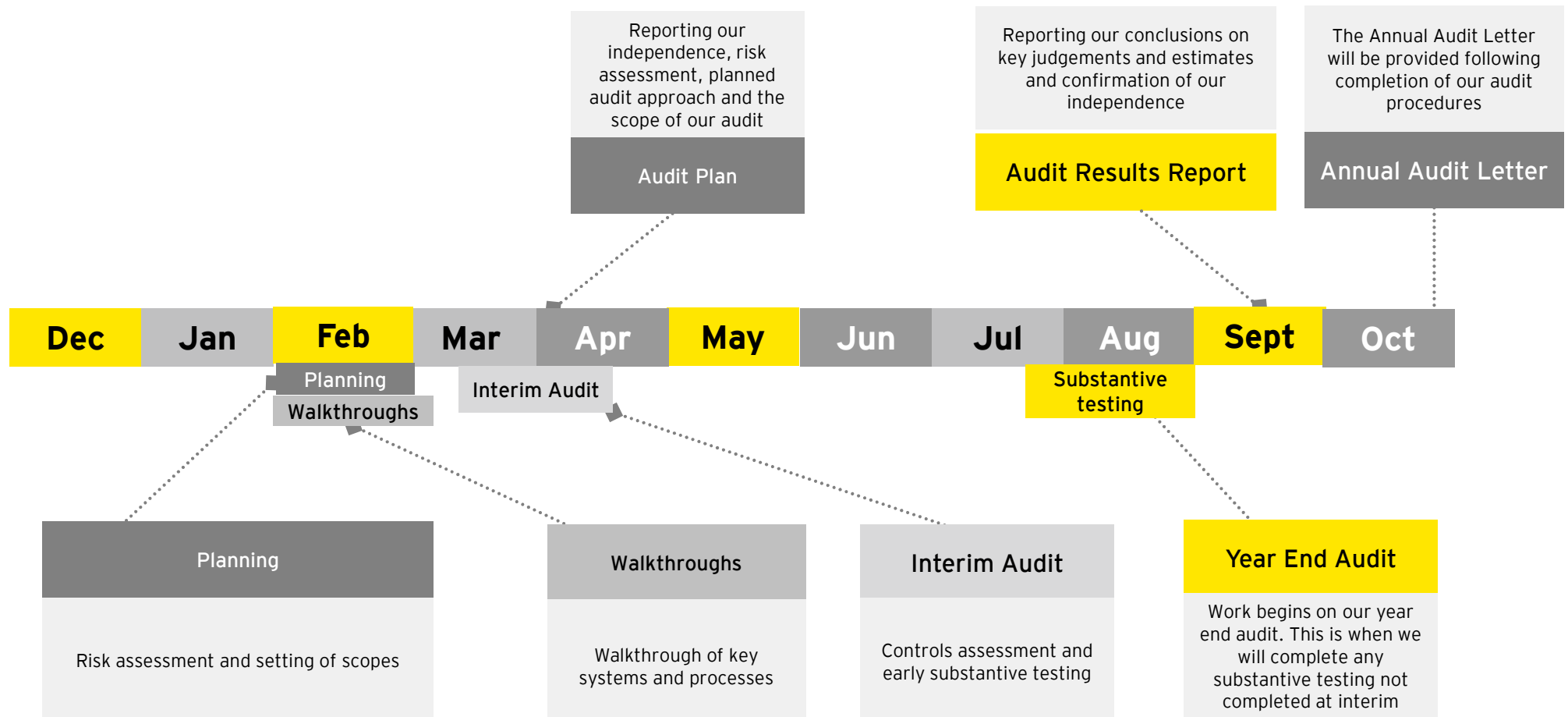
## Audit timeline

### Timetable of communication and deliverables

#### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

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





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 June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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

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

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

## Relationships, services and related threats and safeguards

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

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and, where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not undertake any non-audit work on behalf of the Council. Therefore no additional safeguards are required.

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

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

### Self review threats

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

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

### Management threats

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

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

## Relationships, services and related threats and safeguards

### Other threats

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

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

### EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2019:

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



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.

	Scale Fee 2019/20	Final Fee 2018/19
	£	£
Total Fee - Code work	43,324	43,324
Additional Fee	28,873 (Note 2)	£1,630 (Note 1)
Total fees	72,197	44,954

**All fees exclude VAT**

#### Note 1

The 2018/19 Code work includes an additional fee of £1,630, which relates to additional work incurred during the 2018/19 VFM work. We have agreed the variation with officers, and this has now been submitted to PSAA for approval.

#### Note 2

For 2019/20, the scale fee will be impacted by a range of factors, for example the valuations of land and buildings, investment properties and pension obligations (see pages 5 to 7) which will result in additional work. The impact of Covid-19 will also impact the work that is required to be done. We will update the Audit Committee on these issues as the audit progresses.

In addition, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As an illustration, 85 organisations within the PSAA regime had not yet received their 2018/19 audit opinion as at the end of January 2020.

This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. The factors behind this are explained in more detail on the following pages, with a summary of the estimate of the impact of the scale fee set out on this page. This results in an increase in the scale fee of £28,873. We have discussed our estimate and position on audit fees with the Chief Financial Officer. The Council have not currently agreed to our variation to the scale fee but understand that we are submitting our fee estimate to PSAA for them to determine for 2019/20.

The issues we have identified at the planning stage which will impact on the fee

include:

- Additional risks - financial statements: £10,377
- Costs associated with regulatory compliance changes: £18,497

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix A

# Fees

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organization such as Castlepoint the extent of audit procedures now required mean it will take over 900 hours to complete a quality audit, bringing the audit fee to £72,197.

### Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
  - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
  - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.
3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:
  - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
  - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.



## Appendix A

# Fees




### Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
  - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
  - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

## Appendix B




# Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report April 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report September 2020




## Appendix B

# Required communications with the Audit Committee (continued)

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





## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report April 2020</p> <p>Audit Results Report September 2020</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ <b>Management's refusal for us to request confirmations</b></li> <li>▶ <b>Inability to obtain relevant and reliable audit evidence from other procedures</b></li> </ul>	Audit Results Report September 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Audit Results Report September 2020
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/Audit Results Report September 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report September 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report September 2020

## Appendix B

# Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Auditors report	<ul style="list-style-type: none"><li>▶ Any circumstances identified that affect the form and content of our auditor's report</li></ul>	Audit Results Report September 2020
Fee Reporting	<ul style="list-style-type: none"><li>▶ Breakdown of fee information when the audit plan is agreed</li><li>▶ Breakdown of fee information at the completion of the audit</li><li>▶ Any non-audit work</li></ul>	Audit Planning Report April 2020 Audit Results Report September 2020

## Additional audit information

### Other required procedures during the course of the audit

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

#### Our responsibilities required by auditing standards

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

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

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