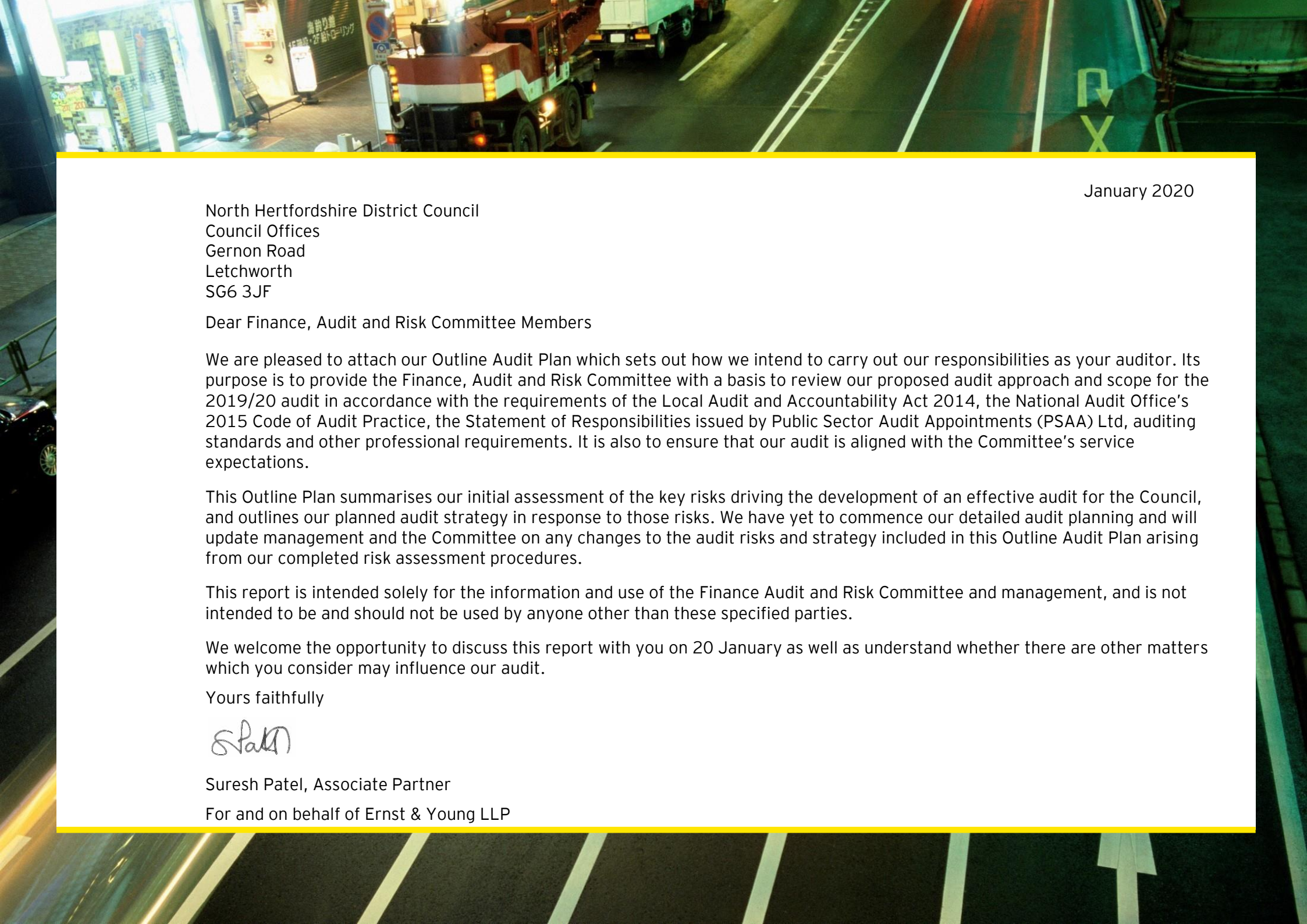


# North Hertfordshire District Council Outline Audit Plan

January 2020



January 2020

North Hertfordshire District Council  
Council Offices  
Gernon Road  
Letchworth  
SG6 3JF

Dear Finance, Audit and Risk Committee Members

We are pleased to attach our Outline Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Finance, Audit and Risk 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 Outline 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. We have yet to commence our detailed audit planning and will update management and the Committee on any changes to the audit risks and strategy included in this Outline Audit Plan arising from our completed risk assessment procedures.

This report is intended solely for the information and use of the Finance Audit and Risk 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 20 January as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Suresh Patel, Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.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 (updated February 2017)" 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 Finance Audit and Risk Committee and management of North Hertfordshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Finance Audit and Risk Committee, and management of the Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Finance Audit and Risk Committee and management of the Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 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 Finance Audit and Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

In line with the prior year we have currently identified no significant audit risks. However, we have identified areas of audit focus, which whilst not meeting the criteria to be treated as significant risks, do require us to focus our audit attention and procedures.

Area of audit focus	Change from PY	Details
<b>Property, plant and equipment (PPE) valuation</b> At 31 March 2019 PPE (£103m) and Investment Properties (£18.8m)	No change in focus	These valuations 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.
<b>Pension liability valuation</b> At 31 March 2019 £50.4m	We will consider the impact of the prior year national issues and the triennial review.	The pension fund deficit is a material estimate that is disclosed on the balance sheet. It involves significant estimation and judgement which management engages an actuary to undertake. In 2018/19 the estimation was impacted by national issues relating to legal rulings and required a late revision to the reported figure. There remains some uncertainty whether these issues will impact 2019/20. In addition, 2019/20 will be impacted by the triennial review.
<b>Preparation for the implementation of IFRS 16 (Leases)</b> As at 31 March 2019 the total commitment for operating leases was £1.2m	New area of focus	Whilst IFRS16 applies to the 2020/21 financial statements the Council needs to ensure its preparations are in train during 2019/20.  The changes introduced by the standard will have substantial practical implications for how the Council accounts for and discloses operating leases, and may also have an effect on capital financing arrangements.

### Value for money conclusion

Based on our initial planning discussions with management we are aware that the Council is planning a property acquisition and development strategy and associated investment strategy worth £20m over five years. Whilst the Council's plans are aimed at 2020/21 and beyond, the arrangements that the Council is putting in place to manage the associated risks fall within our value for money conclusion remit for 2019/20. This will represent a significant risk to the value for money conclusion and we will report details of our planned procedures to the next Committee meeting.

## Overview of our 2019/20 audit strategy

### Materiality

Planning  
materiality

£1.32m

We have determined that materiality for the financial statements of the Council is £1.32 million. This represents 2% of the prior years gross expenditure on provision of services of £66.06m. We have retained the same basis for calculating materiality as the prior year and it remains at the top end of our range.

Performance  
materiality

£0.99m

We have set performance materiality for the Council at £0.99 million which represents 75% of materiality. This again, is consistent with the prior year and reflects our view that there is generally a low risk of material misstatement in your accounts.

Audit  
differences

£0.066m

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 £0.066 million, which represents 5% of materiality. We will report other misstatements to the extent that they merit the attention of the Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of the 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. Once we complete our detailed audit planning we will update management and the Committee on any changes to audit risks and our strategy.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (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 up to date with the changing requirements of external audit with increased focused on, for example, valuations of land, buildings and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 16 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. Therefore to the extent any of these are relevant in the context of North Hertfordshire District Council's audit we will discuss with management as to the impact on the scale fee.

## Audit team

Suresh Patel remains your Engagement Partner for the audit along with Julie Kriek as your Audit Manager. Josh Smart who was part of the audit team for 2018/19 will support Julie as the lead senior.



# 02 Audit risks





## Audit risks

### Areas of audit focus

We have identified 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 matters we will include in our reporting to the Committee.

#### What is area of focus?

##### Property, plant and equipment valuation

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the 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?

We will:

- ▶ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment property. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 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 aim to commence this work as early as is possible.

## Audit risks

### Areas of audit focus (continued)

#### What is the area of focus?

##### **Pension Liability Valuation and Actuarial Assumptions**

The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheets. At 31 March 2019 this totalled £50.4 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for the scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the previous year the pension liability was impacted by national issues that necessitated an updated IAS 19 report from the actuary. There is some uncertainty as to whether these national issues will affect 2019/20. The prior year was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report. In addition, for 2019/20 the IAS 19 report will take into account the triennial review of the fund.

#### What will we do?

We will:

- ▶ Liaise with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- ▶ Assess the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19, including any updates to the value of year end assets.

##### **IFRS 16 - Leases**

The Council will need to adopt the requirements of IFRS 16 for financial years commencing 1 April 2020. The new standard will eliminate the distinction between operating and finance leases and it is expected that work will be required by officers to identify all of the leases that it has in place at 1 April 2020. Readiness assessment is encouraged to prepare for the upcoming implementation.

We will:

- Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2020/21;
- Check additional disclosure requirements as required by the Code for 2019/20 have been complied with.





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 initial 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. In 2019/20 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that the Council will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our initial risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage we have identified the Council's property acquisition and development strategy and associated investment strategy as a significant risk. Whilst the Council's plans are aimed at 2020/21 it is currently putting in place arrangements for managing the associated risks and managing implementation of the strategies. As a result, we have identified a need to understand these arrangements as part of the 2019/20 value for money conclusion. We outline overleaf our planned procedures.





## Value for Money Risks

### What is the significant value for money risk?

#### **New property acquisition and development strategy and associated investment strategy.**

The Council is currently putting in place a property acquisition and development strategy and an associated investment strategy, aimed at making £20 million of investments in the five years commencing 2020/21.

This represents a new and ambitious activity for the Council. The Council will need to ensure that it puts into place appropriate arrangements to enable it make informed decisions and deploy its resources in a sustainable manner.

### What arrangements does the risk affect?

Take informed decisions /  
Deploy resources in a sustainable manner

### What will we do?

Our value for money work will focus on gaining an understanding of the arrangements that the Council puts into place to manage the risks associated with it making informed decisions and deploy its resources in a sustainable manner.

We will seek responses to the following questions:

- What is the basis of the property acquisition and development strategy and the investment strategy and what is their relationship with the Council's strategy and objectives?
- What legal and other advice has been used?
- What is the impact on the Council's compliance with the Prudential Code?
- What is the financial impact on the budget and MTFS including assessments of downside risks associated to falling capital values and increasing borrowing costs?
- What is impact on the MRP calculation?
- What are the gateway processes for investment decisions
- How are associated risks reflected in the corporate/strategic risk register?
- What are the plans or strategies that have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality - these factors needed to be taken together rather than considered separately.
- How will value for money be demonstrated in borrowing and investment decisions?



04

## Audit materiality





# Audit materiality

## Materiality

For planning purposes, we have set materiality for the Council at £1.32 million. This represents 2% of prior year gross expenditure on provision of services as per the prior year.



We request that the Committee confirm their 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 used the same basis for assessment as the prior year.

**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 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 Committee, or are important from a qualitative perspective.

**Specific materiality** - We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.



**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 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 substantively testing details 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.

#### 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:

We will regularly meet with the Head of Internal Audit, and 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

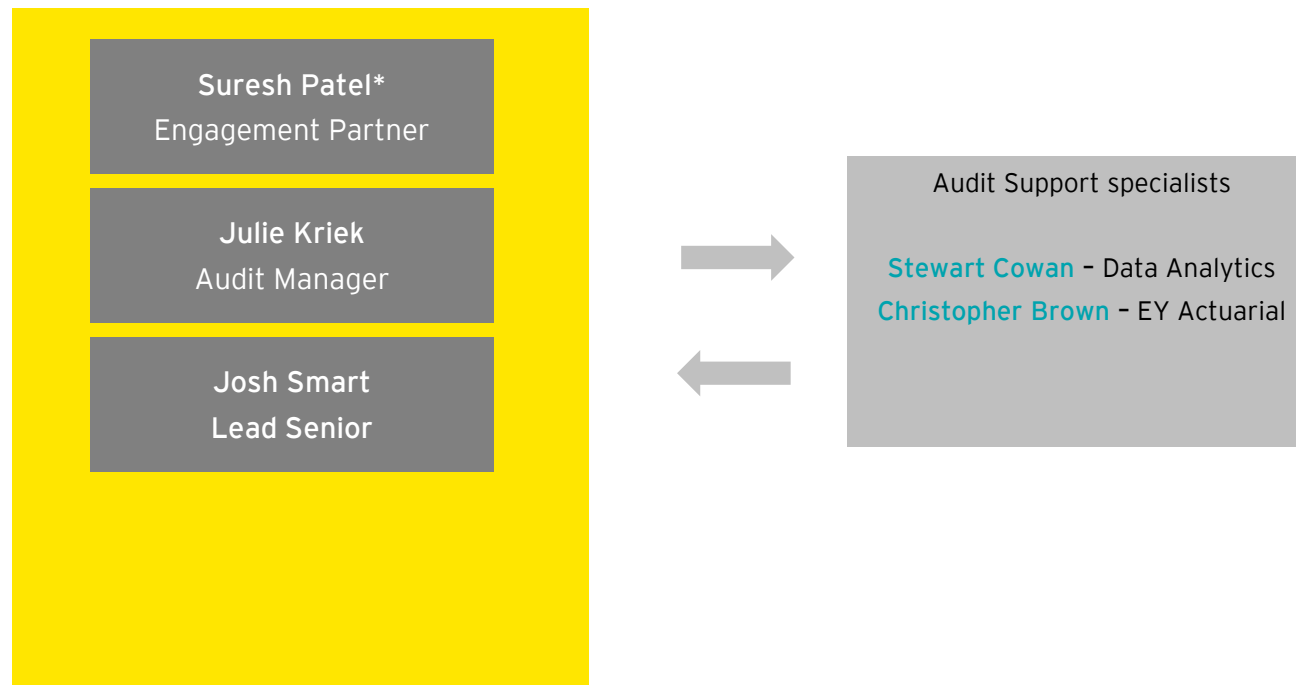
## Audit team



## Audit team

### Audit team structure:

The audit team is led by Suresh Patel, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY. We set out below the engagement team structure for our audit.



Suresh Patel as the Audit Engagement Partner will sign the opinions on the financial statements. Julie and Josh will have responsibility for all operational matters and for the day to day management and delivery of the external audit service.

\* Key Audit Partner

## Audit team

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### 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	Management's internal specialist
Pensions disclosure	EY Actuaries; Management's third party specialists - Hyman Robertson

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

## Indicative audit timeline







# Indicative audit timeline

## Timetable of communication and deliverables

### Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables. We will agree the actual timetable with management shortly. From time to time matters may arise that require immediate communication with the management and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Initial risk assessment and setting of scopes.	January	20 January 2020 meeting	Outline Audit Plan
	February		
Final risk assessment, walkthrough of key systems and processes & interim testing	March		Final Audit Plan (if there are changes to risks)
	April		
	May		
Year end audit Audit Completion procedures	June		
	July		Audit Results Report Audit opinions and completion certificate
	August		
	September		Annual Audit Letter



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.</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</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. At the date of preparing this report we are not aware of any threats to our independence that we need to safeguard against. We will update this assessment throughout the year.

### Self review threats

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

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

### Management threats

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

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

### Other threats

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

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

## Other communications

### EY Transparency Report 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 28 June 2019 and can be found here:

[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

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies. 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. We outline below the planned fee for 2019/20 compared to the final fee for 2018/19.

	Planned fee 2019/20	Final Fee 2018/19	<i>All fees exclude VAT</i>
	£	£	
Scale Fee	40,068	40,068	
Additional fees:			
• VFM significant risk - property acquisition and development strategy	Note 1	-	
<b>Total audit</b>	<b>TBC</b>	<b>40,068</b>	
Non-audit services - Housing Benefit reporting accountant	9,144**	9,144*	
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	

Note 1 - We will discuss the additional fee associated with addressing the VFM significant risk with the Service Director - Resources and report a range to the next Committee meeting

\* The 2018/19 HB reporting accountant work is in progress but we have already agreed an additional fee with the Service Director - Resources. We will report the final fee to the next Committee meeting.

\*\* We will revisit the 2019/20 HB reporting accountant fee on conclusion of the 2018/19 work.

The planned 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; 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 management in advance.

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

## Appendix B





# Required communications with the Finance, Audit & Risk Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the 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	Outline Audit Plan to be presented at the January 2020 Committee.
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 to be presented at the July 2020 Committee.

## Appendix B




# Required communications with the 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 to be presented at the July 2020 Committee.	
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 to be presented at the July 2020 Committee.	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the 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 to be presented at the July 2020 Committee.	
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 to be presented at the July 2020 Committee.	



## Appendix B

# Required communications with the 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; 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>	Outline Audit Planning Report to be presented at the January 2020 Committee; and Audit Results Report to be presented at the July 2020 Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report to be presented at the July 2020 Committee.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report to be presented at the July 2020 Committee.
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report to be presented at the July 2020 Committee.
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed and at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Outline Audit Planning Report to be presented at the January 2020 Committee; and Audit results report to be presented at the July 2020 Committee.
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report to be presented at the July 2020 Committee
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 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</li> </ul>	Audit Results Report to be presented at the July 2020 Committee
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	

## 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 Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.

### Purpose and evaluation of materiality

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

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

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

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