



Cambridge City Council Outline Audit Plan

Year ended 31 March 2020

24 June 2020



Cambridge City Council
The Guildhall
Market Square
Cambridge
CB2 3QJ

24 June 2020

Dear Civic Affairs Committee Members

Outline Audit Plan - 2019/20

We are pleased to attach our Outline Audit Plan which sets out our initial views on how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Civic Affairs 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 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. We will provide an update to this plan on completion of our planning procedures, if we identify new risks or change our audit strategy.

We have adapted our audit approach and working practices to take account of the implications and risks from COVID-19 as we see them for the preparers of financial statements and auditors for Local Government bodies. We have had initial discussions with the Council's finance team on their response and ongoing strategic, operational and financial risk assessment. We will continue to keep this area 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 on the valuation of the Council's assets, recognition of grant income 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.

Within the plan we have also reflected on the changes in the local audit environment and the increased compliance and regulatory requirements on delivering a quality audit service. As a result, we are proposing an increase to the scale fee. We have recently shared the detailed basis of this proposal with officers and will continue discussions on the fee. Ultimately, we will seek agreement with PSAA.

[continued]



This report is intended solely for the information and use of the Civic Affairs 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 8 July 2020 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.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 Civic Affairs Committee and management of Cambridge City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Civic Affairs Committee and management of Cambridge City 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 Civic Affairs Committee and management of Cambridge City 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 Civic Affairs 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 including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud Risk	No change in risk or focus	Linking to the management override risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment as a separate risk, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Investment Property Valuations & other assets valued using market information	Significant Risk	Increased risk	<p>The Council's investment property portfolio is a material balance (£171m at 31 March 2019) disclosed on the Council's balance sheet. In addition, the Council holds other assets valued using market information.</p> <p>The Royal Institution of Chartered Surveyors (RICS) have issued guidance to valuers following the Covid-19 pandemic that there likely exists a material uncertainty surrounding valuations in the 2019-20 period; this follows uncertainties in the current economic climate and the impact upon commercial market rents.</p> <p>Such events may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties and other assets valued using market information at 31 March 2020. This leads to a risk of material uncertainty in the valuations of Investment Property and some other assets within the Council's financial statements. We will be engaging our own experts, EY Real Estates, to ensure we obtain sufficient assurance over this risk.</p>

Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Other Land and Buildings valuations	Inherent risk	No change in risk or focus	Other Land and Buildings (OLB) represents a significant balance in the Council's accounts (£139m at 31 March 2019) and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. As the Council's OLB are significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk 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.
Council dwellings valuation	Inherent risk	Change in focus	Council dwellings represent a significant balance in the Council's accounts (£612m at 31 March 2019) and are subject to valuation changes, impairment reviews and depreciation charges. In 2018/19 we identified issues in how the Council's valuer applied indexation to some beacon valuations. As the value of council houses are significant, and the outputs from the its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.
Pension Liability Valuation & other pension disclosures	Inherent risk	No change in risk or focus	The Council's pension fund deficit is a material estimated balance (£138m at 31 March 2019) disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Covid-19 may impact the value of pension assets at 31 March 2020. We will keep this under review.
Presentation and disclosure of accounting items	Inherent risk	New risk	The Council's draft 2018/19 statements contained numerous errors and several supporting working papers were insufficient as a result of weaknesses in the capacity and capability in the finance team. Since January 2020, the finance team has been strengthened and the Council has put in place a plan to prepare its 2019/20 statements by the end of July. As a result of the prior year issues we will reduce our testing threshold (See page 9).

Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Group accounts	Inherent risk	Change in focus	The Council has been preparing group accounts for several years. For 2019/20 we understand that Cambridge Live will no longer be a separate entity requiring consolidation. The Council will need to undertake its annual assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities. We have yet to engage with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2019/20 audits and what impact that has on our consideration of the group accounts.
Going concern	Area of focus	New area of focus	Covid-19 has increased pressure on the Council's finances due to a reduction in non-government sources of revenue and increased expenditure. There is a risk to the Council's financial resilience and a need for appropriate disclosure of material uncertainties in finances over the next 18 months.

Other impacts of Covid-19 on the accounts and audit

Timetable

MHCLG have changed the financial reporting dates for local authorities in light of Covid-19. The Council is now required to publish its draft statements by the 31 August (from 31 May) and publish audited accounts (where they have been audited) by 30 November (from 31 July). At present the Council has indicated that it plans to prepare its draft accounts by the end of July.

Remote working

Our audit documentation tool, Canvas, and the EY Client Portal enable us to undertake the majority of our audit procedures by working remotely. To date, the Council's finance team have also been able to deal with audit queries and continue with their closedown preparations remotely.

Audit evidence

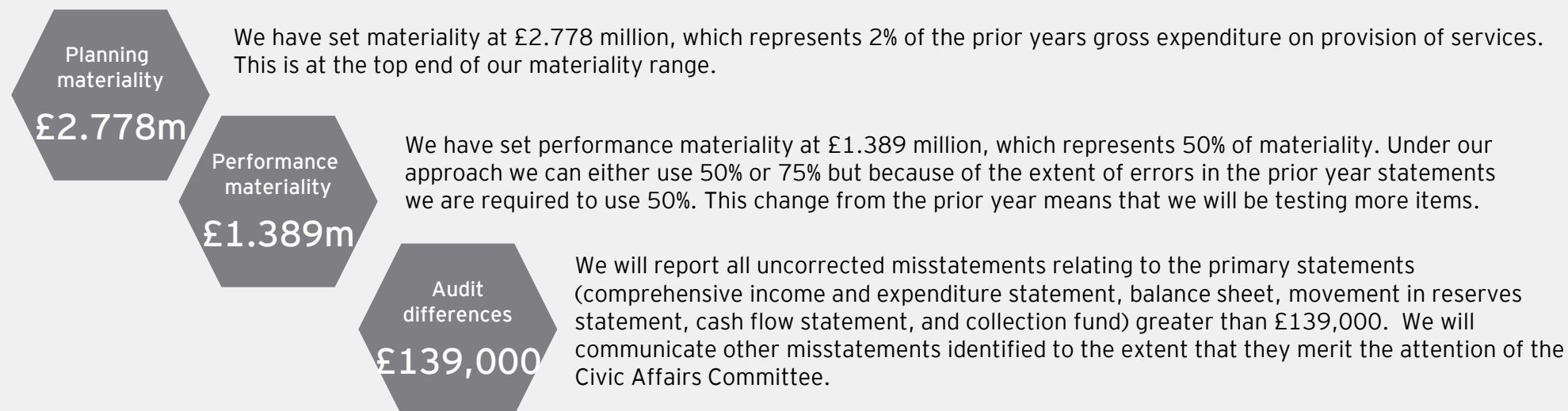
Whilst remote working is operating relatively effectively, there are likely to be some aspects of audit evidence where we will need to work collaboratively with the finance team to ensure its appropriateness and sufficiency. Dealing pragmatically with these challenges may increase the duration of the year end audit.

Auditor's report

Because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, EY (in common with other firms) has introduced a rigorous consultation process for all auditor reports. Whilst we may not be seeking to issue the Council's auditor report until later in the year, there is likely to remain in place a consultation process that may impact on the timing and the content of the audit report.

Overview of our 2019/20 audit strategy

Materiality



We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

When carrying out audit procedures, in addition to using the materiality levels outlined above, we also take into account our view of the Council's controls and the inherent risk of a specific item of account. The stronger the controls and the lower the inherent risk, the less we are likely to test. 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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

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 Cambridge City 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 (Value for Money).

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 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 such as commercial investment strategies. Therefore to the extent any of these or any other risks are relevant in the context of Cambridge City Council's audit, we have recently shared with management the impact on the scale fee. We will continue these discussions before seeking agreement with PSAA. In addition, in Section 8 we have included an indicative range for the additional work we will be conducting in response to the significant risks we have identified and included in this Plan. We will confirm these fees with management as the audit progresses.



02

Audit risks



Audit risks

Our response to significant risks

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

Misstatements due to fraud or error *

What is the risk?

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

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

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following page.

What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

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

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



Audit risks

Our response to significant risks (continued)

Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS) *

What is the risk?

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

We consider the risk applies to capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

This could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What will we do?

Should capital expenditure be material to the financial statements, we will undertake additional procedures to address the specific risk we have identified, which will include:

- ▶ Testing a sample of capital expenditure, including Revenue Expenditure Funded from Capital Under Statute (REFCUS) to a higher level to verify that revenue costs have not been inappropriately capitalised.

Our response to significant risks (continued)

Investment Property Valuations & other assets valued using market information

What is the risk?

The Council's investment property portfolio is a material balance (£171m at 31 March 2019) disclosed on the Council's balance sheet. In addition, the Council owns other assets that are valued on the basis of market information.

The Royal Institution of Chartered Surveyors (RICS) have issued guidance to valuers following the Covid-19 pandemic that there likely exists a material uncertainty surrounding property valuations (and other assets valued using market data) in the 2019-20 period. If a RICS Regulated Member concludes that declaring material uncertainty is not appropriate, there should be a sound rationale to explain the decision making process.

<https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/>

This guidance follows uncertainties in the current economic climate and the impact upon commercial market rents.

Such events may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties.

This leads to a risk of material uncertainty in the valuations of Investment Property and other assets within the Council's financial statements.

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 valuers in performing their valuation (for example market rents and other market information).
- ▶ Engage EY Real Estate as our internal specialists to review the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties and other assets valued using market information. We apply special consideration to any disclosures or disclaimers resulting from Covid-19.
- ▶ Test accounting entries have been correctly processed in the financial statements.
- ▶ Consider the impact of any material uncertainty reported by the Council's valuers on our audit report.

Other inherent risks

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/area of focus?	What will we do?
<p>Other Land and Buildings valuations</p> <p>Other Land and Buildings (OLB) represents a significant balance in the Council's accounts (£139m at 31 March 2019) and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.</p> <p>As the Council's OLB are significant, and the outputs from its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ 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 whether valuations are carried out with sufficient frequency to ensure that carrying values are not materially different from market value. ▶ Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ Consider appropriateness of 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. ▶ Consider the impact of any material uncertainty reported by the Council's valuers on our audit report.
<p>Council house valuations</p> <p>Council dwellings represent a significant balance in the Council's accounts (£612m at 31 March 2019) and are subject to valuation changes, impairment reviews and depreciation charges. In 2018/19 we identified issues in how the Council's valuer applied indexation to some beacon valuations. As the value of council houses are significant, and the outputs from the its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ 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; and ▶ Test a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and ▶ Consider specifically the use of indices to derive the 31 March valuation. ▶ Consider the impact of any material uncertainty reported by the Council's valuers on our audit report.

Audit risks

Other inherent risks (continued)

What is the risk/area of focus?	What will we do?
<p>Pension Liability Valuation & other pension disclosures</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 Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £138 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. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>For 2019/20 there may be an impact of Covid-19 on pension asset values as at 31 March 2020.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridge City Council;▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
<p>Presentation and disclosure of accounting items</p> <p>The Council's draft 2018/19 statements contained numerous errors and several supporting working papers were insufficient as a result of weaknesses in the capacity and capability in the finance team. Since January 2020, the finance team has been strengthened and the Council has put in place a plan to prepare its 2019/20 statements by the end of June. However, there remains an inherent risk that the accounts may contain errors.</p>	<p>We have been in discussions with the new members of the finance team throughout the closure of the 2018/19 audit. As a result of our experience in 2018/19, in order to identify any significant issues at an early stage, we will:</p> <ul style="list-style-type: none">▶ Undertake an early detailed review of the account to assess the overall quality of accounts presented for audit;▶ Provide officers with a list of audit working paper requirements before we commence the detailed work on the final accounts;▶ Review the adequacy of the working papers provided before we commence detailed audit work



Audit risks

Other inherent risks (continued)

What is the risk / area of focus?	What will we do?
<p>Group accounts</p> <p>The Council has been preparing group accounts for several years. For 2019/20 we understand that Cambridge Live will no longer be a separate entity requiring consolidation.</p> <p>The Council will need to undertake its annual assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities.</p> <p>We have yet to engage with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2019/20 audits and what impact that has on our consideration of the group accounts. There may be new risks for 2019/20 relating to the impact of Covid-19.</p>	<p>We will:</p> <ul style="list-style-type: none">▶ Review the Council's assessment of its group boundary;▶ Liaise with the component auditors to understand any risks that they are recognising;▶ Evaluate any risks at component level on the group accounts;▶ Issue instructions to the component auditors we intend to place reliance on; and▶ Audit the consolidation process and group accounts.

Other areas of audit focus

What is the area of focus?

Going concern disclosures

Covid-19 has created a number of financial pressures throughout Local Government. For the Council its other sources of income such as investment income and car parking are being adversely impacted. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

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.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out 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'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

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.

What will we do?

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 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.

We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist.

These disclosures should also include 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).

Our audit procedures to review these will include consideration of:

- ▶ Current and developing environment;
- ▶ Liquidity (operational and funding);
- ▶ Mitigating factors;
- ▶ Management information and forecasting; and
- ▶ Sensitivities and stress testing.



03

Value for Money Risks



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.

In April 2020, the NAO updated the Auditor Guidance Note 3 for local authorities to include specific guidance in relation to Covid-19. They noted the response to Covid-19 will have significant implications for local government bodies. Bodies will need to adapt many, if not all, of their arrangements to adjust to both significant increases in demand for some services and new ways of working as a result of the severe restrictions placed on the public from 23 March. However, it was also clarified that unless there is clear evidence of significant failings in the Authorities' arrangements during the 2019-20 financial year, it would not be appropriate to identify a significant risk in this area. We have not become aware of any such failings and therefore no significant risk has been identified in relation to Covid-19 at this stage.

Following our planning procedures we have not identified a significant risk to our value for money conclusion but we will continue to review the resilience of the Council's MTFS and commercial activity as regards investment properties during the course of the audit.

We will continue to revisit this assessment as our audit progresses and update the Civic Affairs Committee of any changes.



04

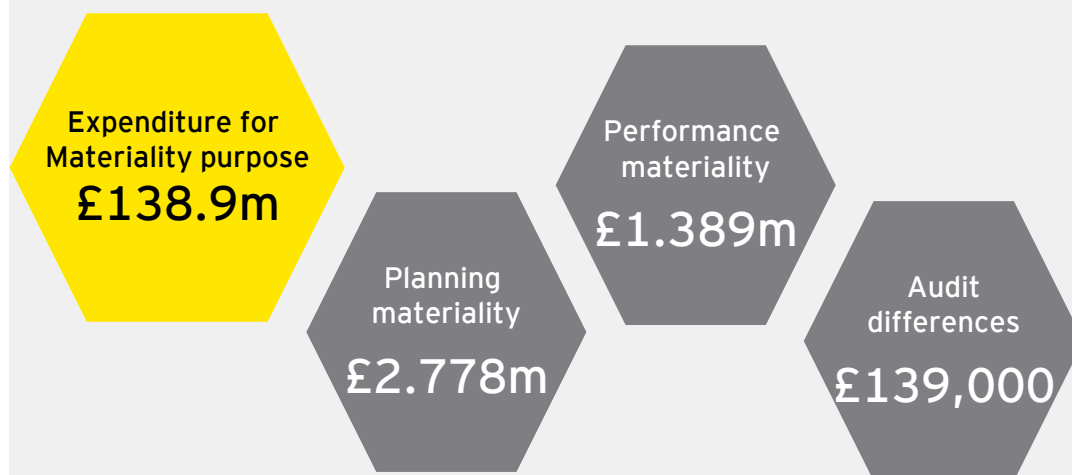
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £2.778 million. This represents 2% of the Council's prior year gross expenditure excluding revaluation movements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Civic Affairs 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. This can either be 50% or 75% of planning materiality. We have used 50% because of the number of errors in the prior year accounts. This is a decrease on the percentage used last 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, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

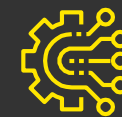
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Civic Affairs Committee, or are important from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

Specific materiality – We have set a materiality threshold of £5,000 for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would not influence the economic decisions of users of the financial statements in relation to these disclosures.



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.

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

Our intention is to carry out a fully substantive audit in 2019/20 as we believe this to be the most efficient audit approach. 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 Civic Affairs 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.

Scope of our audit

Scoping the group audit

Group scoping

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

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

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

Scoping by Entity

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

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

Scope definitions

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

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

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

Specified Procedures: where the component team performs procedures specified by the group audit team to respond to an identified risk.

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

Scoping the group audit (continued)

Scoping coverage

At the time of writing this report we are awaiting further information to be able to conclude on our group scoping. However, based on our discussions with management to date and knowledge from the 2018/19 audit we anticipate:

- ▶ Relying on the audit work of the component auditor in respect of Cambridge City Housing Company. The impact of this subsidiary on group income and expenditure will be immaterial, however, it does hold significant property assets that require valuation and alignment of accounting policies. Our focus is on those balances that could contain a risk of material misstatement.
- ▶ Undertaking other procedure in relation to the Cambridge Investment Partnership (CIP) entities. The CIP entities are joint ventures in which the Council holds a 50% stake. To date these entities have been operating at a loss and have not therefore been incorporated in the group accounts as the Council has taken the option not to include a share of net liabilities in the investment. Our focus will be on ensuring that this remains materially correct in 2019/20.
- ▶ For other entities in which the Council has an interest but excludes from the group accounts (Visit Cambridge and Beyond and Storey's Field Community Trust) we will ensure that the combination of excluded entities is not qualitatively nor quantitatively material to the group.

We will update the Committee if there are any changes to our scoping coverage throughout the audit.

Key changes in scope from last year

- ▶ The Council's accounts remain subject to full audit by the primary audit team
- ▶ Cambridge City Housing Company was a specific scope audit in previous years, and as such there have been no changes to that entity.
- ▶ The three Cambridge Investment Partnership entities will be covered by other procedures in 2019/20.
- ▶ Cambridge Live is no longer a separate entity and will not be consolidated into the Council's group accounts in 2019/20 as the operations were incorporated in the Council's accounts with effect from 1 April 2019.

Details of specified procedures

In order to respond to the risk identified in relation to the valuation of land and buildings we will seek to rely on the work of the component auditor.

We will consider whether the scoping decisions remain appropriate based on the 2019/20 accounts of the CIP entities and those entities that are excluded from the consolidation.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below where we should need to rely on the work of a component auditor.

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



06

Audit team and use of specialists



Audit team

The engagement team continues to be led by Suresh Patel and managed by Tony Poynton. Suresh and Tony have established good working relationships with the Committee and the finance team and have significant public sector audit experience.

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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 & Investment Properties	Council's valuers (Wilkes Head and Eve & Bidwells) EY Real Estates Team (in relation to investment property and otherwise where required)
Pensions Disclosure	Council's Actuary (Hymans Robertson) EY Pensions Advisory Team
Financial Instruments	Linked Asset Services (management specialist)
NNDR appeals provision	Analyse Local (management specialist)

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

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

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



07

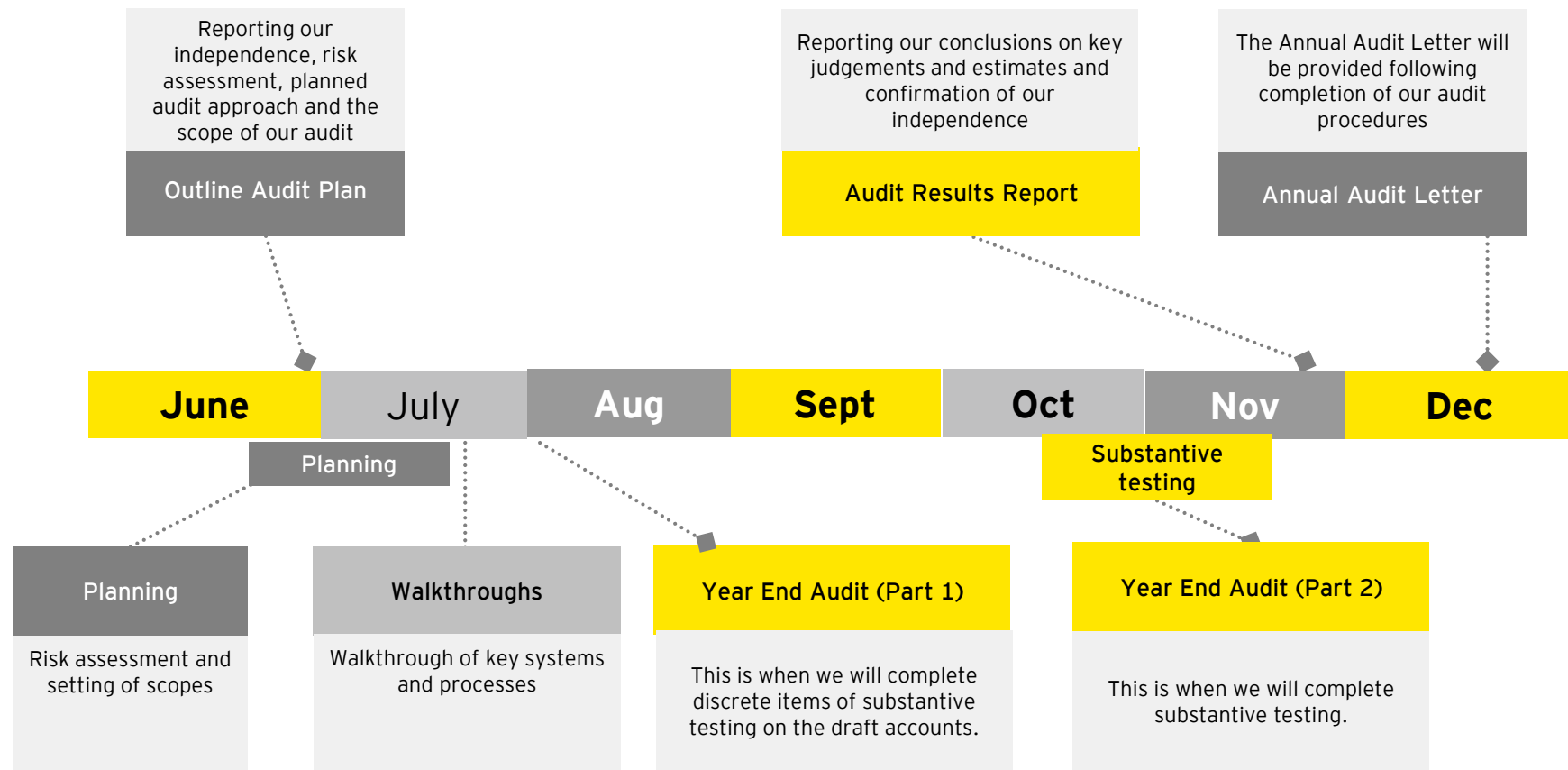
Audit timeline



Proposed audit timeline

Proposed timeline

In light of the timing of completing the 2018/19 audit and the revised MHCLG timetable, we have discussed with officers a split timetable that allows the finance time sufficient time to prepare the 2019/20 statements and supporting working papers, and enables us to plan in detail the audit and deliver the audit of the accounts with a well resourced engagement team. From time to time matters may arise that require immediate communication with the Civic Affairs Committee and we will discuss them with the 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"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, 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 we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standards or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit services and therefore we do not need any additional safeguards.

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 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.

Relationships, services and related threats and safeguards (cont'd)

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.

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2019/20. We commenced some of the agreed upon procedures on the certification arrangements. Our current fee level is £12,568 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2019/20 financial statements.	Relates to 2019/20 return for the period to 31 March 2020.	<p>We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2019/20.</p> <p>The agreed upon procedures focus on the specific requirements of the certification arrangements and we place limited reliance on this work for the purposes of the financial statements audit. No other threats to independence have been identified.</p>

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 end 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 Communities and Local Government. PSAA has published a scale fee for all relevant 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.

	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee - Code work (note 1)	40,024	40,024
Additional fees (note 2)		
- Impact of 50% performance materiality	8,000-15,000	-
- Capital transactions	-	10,500
- Group accounts	7,500-10,500	10,500
- Additional audit overruns & delays (note 3)	-	75,000
- Additional input from EYRE	5,000-10,000	-
- Impact of Covid-19 on the audit including EY consultations	TBC	-
Total audit	TBC	136,024
Non-audit services:		
Housing Benefits (note 4)	12,568	20,750
Total other non-audit services	12,568	20,750
Total fees	TBC	156,774

All fees exclude VAT

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

Note 1: For 2019/20 we do not believe the existing scale fees provide a clear link between a public sector organisation's risk and complexity and the increased regulatory requirements to deliver an ISA compliant audit. Further background and context of the audit fee for 2019/20 is set out on the next two pages.

Based on the Council's risk profile, we have estimated the indicative fee for 2019/20 to be £84,038. We have recently shared more detail to support our proposal with the Section 151 officer. We will update the Committee on the fee discussions ahead of our audit results reporting later this year before seeking PSAA approval.

Note 2: Where possible we have included a range for the additional fees associated to known new risks and areas of audit focus. We will revisit these ranges on completion of the work and seek agreement with the Section 151 officer.

Note 3: The 2018/19 additional audit overruns is subject to agreement with the Section 151 officer and PSAA.

Note 4: You engage us to act as reporting accountant for the housing benefits certification work. This is the base fee.

The fees presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion 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 in advance.

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 organisation such as the Council the extent of audit procedures now required mean it will take around 1,100 hours to complete a quality audit. A commercial benchmark for this size of external audit would be £100 per hour. Your scale fee is £40,024 and our current proposal for 2019/20 is £84,038.

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.
4. **Recruitment and retention.** 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.

(continued)



Appendix A

Fees (continued)

Summary of key factors



4. Recruitment and retention (continued)

- 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 Civic Affairs Committee

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

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Civic Affairs 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 - July 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - November 2020



Appendix B

Required communications with the Civic Affairs Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - November 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Civic Affairs Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - November 2020
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence. 	Outline Audit Plan - July 2020; and Audit Results Report - November 2020





Appendix B

Required communications with the Civic Affairs Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - November 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Civic Affairs Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Civic Affairs Committee may be aware of 	Audit Results Report - November 2020
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - November 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - November 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - November 2020
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - November 2020

Appendix B

Required communications with the Civic Affairs Committee (continued)

		 Our Reporting to you	
Required communications	 What is reported?	  When and where	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Outline Audit plan - July 2020 Audit Results Report - November 2020	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - November 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, including the board's statement that the annual report is fair, balanced and understandable, the Civic Affairs Committee reporting appropriately addresses matters communicated by us to the Civic Affairs 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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ED None

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