London Borough of Havering

Indicative Audit Planning Report

Year ended 31 March 2021

April 2021

Building a better working world

15 April 2021

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

Dear Audit Committee Members

2020/21 Indicative Audit Planning Report

We are pleased to attach our Indicative Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Council with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 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 Council's service expectations.

This Indicative 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. This is an indicative plan as we have just started our planning procedures for 2020/21 at the time of writing this report. However, our initial risk assessment, on which this indicative plan is based, takes into consideration our findings on the 2019/20 audit, discussions with the finance team and senior Council officers as well as our knowledge of sector-wide issues that may affect the Council. We will provide an updated plan if there are any changes following the completion of our planning procedures.

This report is intended solely for the information and use of the Council 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 28 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Debbie Hanson

Debbie Hanson
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 Council and management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Council and management of London Borough of Havering 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 Council and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Council with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. We will update the Council in the future if we identify anything that changes our planned audit strategy.

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 for 2020/21	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. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus for 2020/21	In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.
Valuation of investment property	Significant risk	No change in risk or focus for 2020/21	Investment property represent significant balances in the Group accounts (2020: £67.2 million for the Council and £109.9 million for the Group). Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Furthermore, the impact of Covid-19 on tenancy structures and rental agreements increases the valuation risk in relation to investment property. There is therefore a risk that investment property may be misstated in the accounts.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Valuation of other land and buildings	Inherent risk	No change in risk or focus for 2020/21	The valuation of land and buildings represent significant balances in the Group accounts (2020: £1.24 billion for the Council and 1.25 billion for the Group). These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balances sheet, management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by management are likely to have a significant impact on the valuation of these assets.
Pension liability valuation	Inherent risk	No change in risk or focus for 2020/21	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material (£423 million at 31 March 2020) and sensitive item. The Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk.

Overview of our 2020/21 audit strategy

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Going concern disclosures	Inherent risk	No change in risk or focus for 2020/21	Covid-19 has created a number of financial pressures throughout Local Government. It continues to create financial stress through a combination of increasing service demand leading to increased expenditure and reductions in income sources. 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. Auditors must 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. In addition, the revised auditing standard for going concern increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Council.
Group financial statements	Inherent risk	No change in risk or focus for 2020/21	The Council has entered into three Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. The Council consolidated the transactions or balances relating to these joint venture arrangements within its group financial statements for the first time in 2019/20. Although 2020/21 will be the second year of consolidation for the joint ventures there remains a risk that they may not be consolidated accurately and that all required disclosures may not be included in the accounts, particularly as the level of activity in and size of the joint ventures increases.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality

£10.3m

Materiality for both the Council and Group has been set at £10.3 million, which represents 1.8% of the prior year's gross expenditure on provision of services.

Performance materiality

£7.7m

Performance materiality has been set at £7.7 million, which represents 75% of materiality.

Audit differences

£0.51m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £0.51 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of London Borough of Havering give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on the Council's arrangements to secure 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.

There is also a wider public sector audit context, with increasing pressure on all auditors in the current climate. There have been a number of reviews of the wider audit market, and local government audit in particular. The Government has yet to confirm which recommendations from these reviews they will seek to put in place. However, the consistent themes across the reviews are:

- The level of fees and sustainability of the market
- Competence and capability - skills, capability and capacity of auditors, finance teams and audit committees
- Timetable for audits

This, alongside new accounting and auditing regulations, places increasing pressure on auditors. The specific areas we would draw to your attention are:

- The introduction of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures;
- ISA 570 (Revised), Going Concern which will increase the work required in these areas of the audit; and,
- A new value for money approach, including changes to the reporting (see section 3)

Taking the above into account, and as articulated in this Indicative 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 including the expansion of factors impacting the value for money conclusion, and changes in the NAO Code of Audit Practice. Therefore to the extent any of these or any other risks are relevant in the context of London Borough of Havering's audit, we will discuss these with management as to the impact on the audit fee.

Overview of our 2021 audit strategy

Value for money conclusion

One of the main changes in the NAO's 2020 Code, is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness In its use of resources.
- Planning on value for money and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at the same time as we issue the audit opinion on the financial statements, although this timetable may be varied for 2020/21.

Timeline

For 2020/21, the timetable as published in the Accounts and Audit (Amendment) regulations 2021, extends the publication date for audited local authority accounts from 31 July to 30 September. In Section 07 we include a provisional timeline for the audit.

Due to the ongoing impact of later deadlines and completion of audits from 2019/20, we have just started our planning for the 2020/21 audit. We set out in this Plan our initial considerations of the risks for the audit – these are broadly similar to those identified in 2019/20. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2020/21.

Fees

We include further details on our proposed fees for 2020/21 in Section 09.

02 Audit risks

Our response to significant risks

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

* Misstatements due to fraud or error	What is the risk?	What will we do?
	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.	• 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. Performing mandatory procedures regardless of specifically identified fraud risks, including: ➢ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ➢ Assessing accounting estimates, such as bad debt and business rate appeals provision, for evidence of management bias, and ➢ Evaluating the business rationale for any significant unusual transactions. In addition to our overall response, we consider where this risk may specifically manifest itself and identify a separate fraud risk below.

Our response to significant risks (continued)

Risk	What is the risk?	What will we do?
Risk of incorrect capitalisation of revenue expenditure*	In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.	We will undertake additional procedures to address the specific risk we have identified, which will include: ➢ For significant additions to property, plant and equipment, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We will ensure that they have been correctly classified as capital in line with accounting standards and included at the correct value in order to identify any revenue items that have been inappropriately capitalise. ➢ Review and testing of Revenue Expenditure Funded from Capital Under Statute (REFCUS), if material, to verify that revenue costs have not been inappropriately funded from capital. ➢ We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold. ➢ Journal testing – we will use our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks (continued)

Valuation of investment properties	What is the risk?	What will we do?
	Investment properties represent significant balances in the Group accounts (2020: £67.2 million for the Council and £109.9 million for the Group) and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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. The ongoing impact of Covid-19 means there is potential for significant impact on the estimations and assumptions applied to asset valuations. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields. There is therefore a risk that investment property may be misstated in the accounts.	We will respond to this risk by: • Consider the work performed by the Council's valuers as well as the valuers who value the assets held by Mercury Land Holdings and the Joint Ventures, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample testing key asset information used by the valuers in performing their valuation and agreeing this to what has been recorded in the fixed asset register and general ledger; • Consider the annual cycle of valuations to ensure that investment property have been valued annually as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Seeking assurance from the auditors of Mercury Land Holdings and the Joint Ventures over the asset values in the accounts of these components; • Test accounting entries have been correctly processed in the financial statements. We engaged EYRE to review a sample of investment properties in 2019/20 and did not identify any differences. We will consider whether we need to engage EY Real Estates again to review a sample of investment properties to gain additional assurance over any of these assets.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of land and buildings The valuation of land and buildings represent significant balances in the Group accounts (2020: £1.24 billion for the Council and 1.25 billion for the Group). These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balances sheet, management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by management are likely to have a significant impact on the valuation of these assets.	We will: • Consider the work performed by the Council's internal valuers, 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 (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; • Review assets not subject to valuation in 2020/21 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 if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and • Test accounting entries have been correctly processed in the financial statements. We engaged EYRE to review a sample of other land and buildings in 2019/20 and did not identify any differences. We will consider whether we need to engage EY Real Estates again to review a sample of properties to gain additional assurance over any specific assets.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension liability valuation 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 Havering Pension Fund. 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 2020 this totalled £423 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of the Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to London Borough of Havering; • Assess the work of the Pension Fund actuary (Hymans Robertson Actuary), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries, commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
Group financial statements The Council has entered into three Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough. The Council consolidated the transactions or balances relating to these joint venture arrangements within its group financial statements for the first time in 2019/20. Although 2020/21 will be the second year of consolidation for the joint ventures there remains a risk that they may not be consolidated accurately and that all required disclosures may not be included in the accounts, particularly as the level of activity in and size of the joint ventures increases.	We will: ➢ We will review the amounts consolidated by the Council and determine its accuracy; and ➢ We will review the completeness of disclosures made within the Council's financial statements in relation to the Group.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Going concern disclosures Covid-19 has created a number of financial pressures throughout Local Government. It continues to create financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription. However, ISA 570, 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. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.	The revised standard requires: • auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; • greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; • ensuring compliance with any updated reporting requirements; • a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and • necessary consideration regarding the appropriateness of financial statement disclosures around going concern. 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 and the impact of the ongoing impact of Covid-19 on future financial planning. We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

03 Value for Money Risks

Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

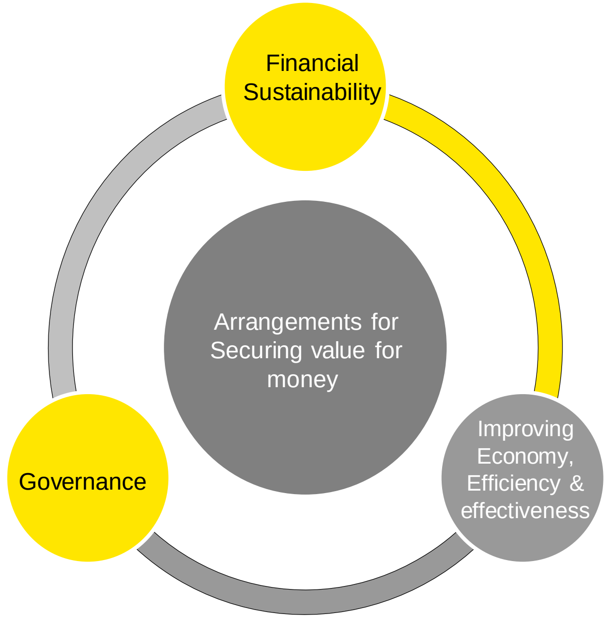
Auditor responsibilities under the new Code

On 1 April 2020, the NAO's new Code of Audit Practice (the 2020 Code) came into force. This sets out how local auditors are expected to approach and report their work on value for money (VFM) arrangements under the new Code and applies to audits of 2020/21 financial statements onwards.

Under the 2020 Code, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer a single overall evaluation criterion which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability:
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance:
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Trust's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or MHCLG;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to commence our detailed value for money planning. We will update the next Committee meeting on the outcome of our planning and our planned response to any identified risks of significant weaknesses in arrangements.

Summary of changes in VFM requirements between the 2015 and 2020 Codes of Audit Practice

We set out a summary of key changes in VFM requirements between the 2015 and 2020 Codes in tabular form on the following pages.

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Overall requirement For auditors to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	Overall requirement No change in requirement.
Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period. Where required, the auditor should report their conclusion on the audited body's arrangements having regard to specific reporting criteria.	Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body a commentary against the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception in their audit report on the financial statements.
Assurance given In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period.	Assurance given No change in requirement. Our work remains arrangements based.
Other sources of relevant information Auditors need to consider: • The audited body's governance statement • Evidence that the audited body's arrangements were in place during the reporting period; • Evidence obtained from the auditor's other work • The work of inspectorates and other bodies and • Any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties	Other sources of relevant information No change in requirement.

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Quantum of work Determining how much work to do on arrangements to secure value for money is a matter of auditor judgement.	Quantum of work Determining how much work to do on arrangements to secure value for money remains a matter of auditor judgement, but we expect the enhanced risk assessment process and reporting requirements to require more time to be input.
Reporting criteria The NAO's supporting Auditor Guidance Note 3 defines proper arrangements as: 1. Informed decision making • Acting in the public interest, through demonstrating and applying the principles and values of sound governance • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control 2. Sustainable resource deployment • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing and utilising assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities 3. Working with partners and other third parties • Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities	Reporting criteria The Code specifies that auditors need to focus on these reporting criteria: 1. Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services. Specifically: • How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them; • How the body plans to bridge its funding gaps and identifies achievable savings; • How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities; • How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and • how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans. 2. Governance: how the body ensures that it makes informed decisions and properly manages its risks. Specifically: • How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; • How the body approaches and carries out its annual budget setting process;

Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Reporting criteria (continued) See previous page	Reporting criteria (continued) • How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the Audit, Standards & Statutory Accounts Committee; and • How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff or member behaviour (such as gifts and hospitality or declarations/conflicts of interests). 3. Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services. Specifically: • How financial and performance information has been used to assess performance to identify areas for improvement; • How the body evaluates the services it provides to assess performance and identify areas for improvement; • How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and • Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.
Risk assessment As part of planning, auditors should consider the risk of reaching an incorrect conclusion in relation to the overall criterion.	Risk assessment The auditor will need to gather sufficient evidence and document their evaluation of it in order to enable them to draft their commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

Value for money – Code requirements

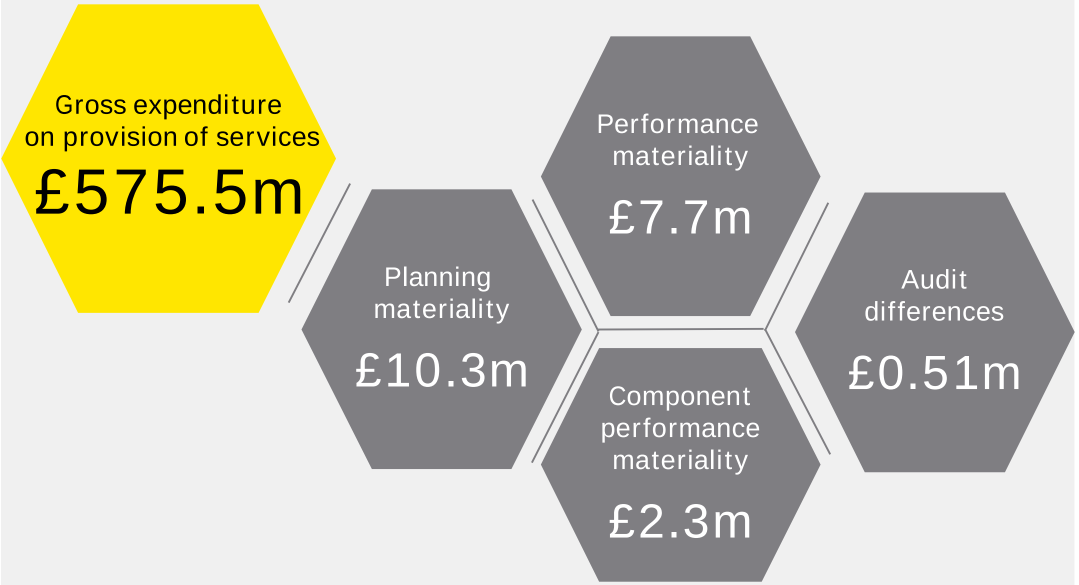
2015 Code requirement	2020 Code requirement
Reporting The auditor should report to the Audit, Standards & Statutory Accounts Committee the results of their work. The Annual Audit Letter should provide a clear, readily understandable commentary on the results of the auditor's work and highlight any issues that the auditor wishes to draw to the attention of the public.	Reporting Auditors are required to report in a commentary each year under the specified reporting criteria and the Code expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with the Audit, Standards & Statutory Accounts Committee. The Auditor's Annual Report should bring together all of the auditor's work over the year. A core element of the report will be the commentary in accordance with the specified reporting criteria. The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £10.3 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.7 million, which represents 75% of planning materiality.

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

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement that have an effect on income or that relate to other comprehensive income.

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

Specific materiality – We have set a materiality at a lower level for remuneration disclosures, related party transactions, members' allowances 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.

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 be satisfied that the Council "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21 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.

Internal audit:
We will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where they raise issues that we assess could have a material impact on the year-end financial statements.

Audit Process overview – impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus continues to have a pervasive impact upon the financial statements. Understandably, the priority for the Council has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements need to reflect the impact of Covid-19 on the Council's financial position and performance.

Due to the continued uncertainty about the duration and extent of the ongoing disruption, there may be further risks related to Covid-19, other than those we have noted in this Indicative Audit Plan. We will provide an update on the impact of Covid-19 on the Council's financial statements, and how we have responded to the additional risks of misstatement, in our Audit Results Report.

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following changes in our audit strategy include:

Information Produced by the Entity (IPE):

- There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity. To address this risk we will:
  - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and
  - Agree IPE to scanned document or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports:

- We will comply with any internal EY consultation requirements which are in place for 2020/21 relating to any modifications to the audit report and in particular in relation to the adequacy of consideration of going concern assessment and disclosures.

Our Audit Process and Strategy (continued)

Audit fee impact

Taking the above into account, and as articulated in this Indicative 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 arrangements such as increased commercial activities and establishment of companies.

The audit risks and audit approach as a result of Covid-19 will also increase the level of work we perform.

Therefore, to the extent any of these are relevant in the context of the Council's audit, we will discuss these with management in relation to the impact on the scale fee and report back to the Council in our Audit Results Report.

Timetable

The disruption caused by Covid-19 has impacted on the completion of a number of audits during 2020 and the planned timetable for the completion of our audits in 2020/21. We have provided details of the planned timetable for the audit in Section 07.

The Financial Reporting Council ("FRC") has issued guidance for both auditors and preparers of the financial statements on issues arising from the Covid-19 pandemic. The guidance to date highlights the practical difficulties in preparing financial statements and performing audits in the new way of working. They noted that it is clear that auditors will be required to develop alternative audit procedures to gather sufficient and appropriate audit evidence.

The guidance is clear that the new way of working should not undermine the delivery of high quality financial statements preparation or quality audits, which should continue to comply fully with international auditing standards. Where additional time is required to complete audits due to ongoing and developing risks, it is important that this is taken to maintain audit quality rather than seeking to conclude early to meet arbitrary or regulatory deadlines.

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.

2	A	Full scope audits
0	B	Specific scope audits
2	C	Review scope audits
1	D	Other procedures

Scope definitions

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

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

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

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

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

Scoping the group audit (continued)

The below table sets out the scope of our audit. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping					
In scope components	Scope	Statutory audit performed by EY	Coverage	Current year rationale for scoping	
			Gross Expenditure	Size	Risk
London Borough of Havering	Full	Yes	99.91%	Yes	Yes
Mercury Land Holdings Ltd.	Full	No	0.09%	No	Yes
Bridge Close Regeneration LLP	Review	No	0%	No	No
Havering and Wates Regeneration, LLP	Review	No	0%	No	No
Rainham and Beam Park Regeneration LLP	Other procedures	No	0%	No	No
TOTAL FULL & SPECIFIC SCOPE			100%		

06 Audit team

Audit team and the use of specialists

Audit team

The core audit team is led by Debbie Hanson as Associate Partner and Lorenz Cayetano as Manager.

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 is:

Area	Specialists
Pensions disclosures	EY Pensions Advisory PwC (Consulting Actuary to the National Audit Office) Hymans Robertson (LGPS Actuary): Management Specialist
Valuation of land and buildings	Management's specialist: Wilks Head and Eve EY Real Estates (if necessary)

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

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

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a provisional timetable showing the key stages of the audit and the deliverables we are due to provide to you through the audit cycle in 2020/21.

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

Audit phase	Timetable	Council timetable	Deliverables
Planning: Risk assessment and setting of scopes	April	Audit Committee meeting	Indicative Audit Planning Report
Walkthrough of key systems	April		
	July	Audit Committee meeting (TBC)	Updated Audit Planning Report
Year end audit	September		
Year end audit	October/November	Audit Committee meeting (TBC)	Audit Progress report/ Audit Results Report
Audit Completion procedures Final reporting	November	Audit Committee meeting (TBC)	Audit opinions and completion certificates Auditor Annual Report (subject to completion of the audit in timeframe noted above and confirmation from NAO of reporting timeframes for this)

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES 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, we have undertaken non-audit work in relation to the certification of the housing subsidy grant claim and teachers pension return. Non audit work is work not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017. There are no other non-audit services being provided to the Council.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report for the reporting period from 29 June 2019 to 3 July 2020 can be found here: https://www.ey.com/en_uk/who-we-are/transparency-report-2020

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Council where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Council details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit with PSAA the basis on which the scale fee was set. We previously shared our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £116,920 to £208,067 for both 2019/20 and 2020/21. We have discussed our estimate and position on audit fees with the Chief Operating Officer and have submitted our fee estimate to PSAA for them to determine for 2019/20. They have not yet concluded on this and so we have repeated the same proposed increase to the base scale fee for 2020/21. A breakdown of our fees is shown in the table below (all fees exclude VAT).

inc	Proposed scale fee 2020/21	Final Fee 2019/20
	£	£
Scale Fee – Code work	116,920	116,920
Proposed increase to scale fee (see comments above)	91,147	91,147
Scale fee variation re additional risks	(Note 2)	(Note 1)
Other non-audit services not covered above (housing benefit and teachers pension)	18,500	18,500
Total audit fees	TBC	TBC

Notes on fees

The fee is presented is based on the following assumptions:

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

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

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

(1) For 2019/20, the fee will be impacted by a range of factors which are reflected in the risks noted in our Audit Results Report. These include but are not limited to:

- Additional work to address the opinion risks which required additional work and the engagement of specialists in some areas, such as the valuation of property and the net pension liability
- Work to address the value for money risks identified.
- Audit of the consolidation of the JVs into the group accounts.
- Additional work to consider and challenge the Council's going concern assessment.

Covid-19 has also impacted on the work we have had to undertake, in particular, we have had to undertake consultation associated with disclosures on the material uncertainties disclosed in relation to property valuations and going concern.

We will update the Audit Committee on the impact of these issues on the final fee once we have completed the audit.

(2) For 2020 /21 the scale fee represents the base fee, i.e. not including any additional audit work. However, this will be impacted by a range of factors, as detailed in this Indicative Audit Plan, which may result in additional work. Covid-19 will also impact on the fee for 2020/21. Additional work will also be required to address the new NAO Code requirements in relation to our value for money conclusion.

We are not able to quantify the additional work or fee at this stage of our planning, but we will discuss this with management as our audit progresses and the scope and scale of any additional work can be clarified.

Appendix B

Required communications with the Council

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

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Council 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.	Indicative audit planning report – April 2021 Updated audit planning report – July 2021 (TBC)
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – October 2021
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report – October 2021
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report – October 2021

Appendix B

Required communications with the Council (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	• Enquiries of the Council 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 – October 2021
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report – October 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Indicative audit planning report – April 2021 Updated audit planning report – July 2021 (TBC) Audit results report – October 2021

Appendix B

Required communications with the Council (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – October 2021
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Council into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Council may be aware of.	Audit results report – October 2021
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – October 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – October 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – October 2021
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – October 2021
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Indicative audit planning report – April 2021 Updated audit planning report - July 2021 (TBC) Audit results report – October 2021

Additional audit information

Other required procedures during the course of the audit

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

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

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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