Northamptonshire Police, Fire and Crime Commissioner & Northamptonshire Chief Constable

Indicative Audit Planning Report

Year ended 31 March 2021

December 2021

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Building a better working world

15 December 2021

Northamptonshire Police, Fire and Crime Commissioner & Northamptonshire Chief Constable.

Dear Joint Independent Audit Committee Members

Indicative audit planning report for 2020/21

We are pleased to attach our Indicative Audit Plan (the Plan) of Northamptonshire Police, Fire and Crime Commissioner (PFCC) & Northamptonshire Chief Constable (CC) (together as “the Group”) for the year ended 31 March 2021, which sets out how we intend to carry out our responsibilities as auditor. Our reporting obligations to those charged with governance are the corporate soles of the PFCC and CC. This reported is addressed to the PFCC and CC. Its purpose is also to provide the PFCC, CC and also the Joint Independent Audit Committee (“the Committee”) with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office’s 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee’s service expectations. The JIAC consider this and our audit results report on behalf of the PFCC and CC, and make appropriate recommendations to the corporate soles on the results of our audit and on the authorisation of the PFCC and CC financial statements.

The Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Group. This is an initial audit plan as we have not yet started our planning procedures. We have had our regular discussions with the Chief Finance Officers to gain valuable insights and updates for the year ended. As our prior year audit is complete, I am able to present our initial assessment of audit risks for the 2020/21 financial year drawing on our cumulative audit knowledge, discussions with senior management and the current regulatory and professional environment for preparers of accounts and external auditors. We intend to start our audit procedures from 1st week of January 2022, and report the results of our audit to the Committee at its meeting scheduled for the 9th March 2022.

We will update the Committee on our final audit strategy, materiality levels prior to the conclusion of our audit of the Group’s 2020/21 financial statements and highlight where our initial assessment has changed during the course of the audit. This report is intended solely for the information and use of the 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 15 December 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

for and on behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated 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 Joint Independent Audit Committee and management of PFCC & CC in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of PFCC & CC those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of PFCC & CC 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 Joint Independent Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (Risk of management override)	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.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	As noted above, under ISA 240, management is in a unique position to perpetrate fraud through the override of controls. We have considered the main areas where management may have the incentive and opportunity to do this. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk, given the extent of the PFCC's capital programme.
Valuation of Property, Plant and Equipment	Significant risk	No change in risk or focus	Property valuations including Property, plant and equipment (PPE) represents a significant balance in the Group and PFCC's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Group and PFCC's asset base is significant, and the outputs from the valuer are subject to estimation. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures, with specialist support as appropriate on the use of experts and assumptions underlying fair value estimates. The current economic uncertainty caused by Covid-19 has significantly increased the risk that property asset valuations (based on market conditions) may be materially misstated.

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation and disclosures	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Group to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body given its membership of the Local Government Pension Scheme administered by Northamptonshire Pension Fund. The Group's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Group's balance sheet. 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. For 2020/21 the Group will need to consider the potential for the ongoing impact of the national issues arising from the Goodwin and McCloud cases.
Going Concern Disclosures	Inherent risk	No change in risk or focus	We will review the appropriateness of the Going Concern disclosures in accordance with the revisions to auditing standard (ISA 570). We will review the appropriateness of the going concern disclosures for PFCC & CC for at least 12 months from the date each financial statements are authorised for issue. This will take into account: • Management's assessment on the continuity of service provision. • Projected viability ("available to use" reserves) and cashflow forecasts for the going concern period. • Our stress testing of management's assessments and key assumptions. • Outcomes from our routine consultation procedures with our professional practice team (if required to comply with our internal consultation process).

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy (cont.)

Materiality

Planning materiality

We have calculated our planning materiality consistent with our prior year's approach.

- PFCC Group accounts – 2% of gross expenditure (£224.3m) which is £4.49m.
- PFCC accounts – 2% of gross assets (£98.4m) which is £1.97m.
- CC accounts – 2% of gross expenditure (£197.9m) which is £3.96m.

Performance materiality

Performance materiality represents 75% of planning materiality (in line with last year). Accordingly, our planned materiality levels are:

- PFCC Group (£3.36m)
- PFCC accounts (£1.48m)
- CC accounts (£2.97m)

Audit differences

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). This level is driven by our calculation of planning materiality and will change if materiality is revised during the course of the audit.

- PFCC Group (£224K)
- PFCC accounts (£98K)
- CC accounts (£198K)

Timeline

MHCLG (now DLUHC) after consultation have agreed that the 2 year extension to 30 September for the publication of audited accounts was appropriate and that the removal of the common inspection date, requiring instead that the draft accounts be published no later than 1 August, was also appropriate. The Accounts and Audit (Amendment) Regulations 2021, which will implement these changes, were laid on 9 March and came into force on 31 March 2021. Our provisional timetable is set out at section 07.

Fees

We have included further details on the planned fees for 20/21, and factors affecting the scale fee, in Section 09.

Overview of our 2020/21 audit strategy (cont.)

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 the PFCC & CC give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our conclusion on the Group's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Group'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 Group.

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

Overview of our 2020/21 audit strategy (cont.)

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 Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Authority'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 Authority's arrangements against three reporting criteria:
    - Financial sustainability - How the Authority plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Authority ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.
- Within the audit opinion we will still only report by exception where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 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.

02 Audit risks

Our response to significant risks

Misstatements due to fraud or error

(Risk of management override)

[Fraud Risk]

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.

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, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions.

Inappropriate capitalisation of revenue expenditure

[Fraud Risk]

What is the risk?

Linking to our risk of misstatements due to fraud and error, we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment as a specific area of risk. The Group and PFCC has a significant fixed asset base and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What will we do?

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure:

- Test a sample of capital expenditure at a lower testing threshold to verify that revenue costs have not been inappropriately capitalised;
- Our testing will examine invoices, capital expenditure authorisations, leases and other data that support capital additions. We will review the sample selected against the definition of capital expenditure in IAS16.
- As part of our journal testing strategy, we will review unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

Our response to significant risks (cont.)

Valuation of Property, Plant & Equipment [Significant Risk]

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Group and PFCC's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end asset property valuations held on the balance sheet.

The Group and PFCC engages property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements. We further understand from our discussion with the management that the Authority has appointed new valuers from the year 2020/21.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Based on our procedures performed in prior years, our internal valuers (EYRE) raised an observation on the valuation assumptions used to value the Wootton Hall HQ building, whereby our EYRE suggested that a DRC approach could have been a more appropriate methodology. Whilst our EYRE didn't agree on the valuation approach with Authority's valuers, we concluded that the Group's valuers' calculated value of £8,800,000 was still with in our acceptable range.

In addition to the above observation in prior years, we understand from management that the Authority has appointed new valuers to perform revaluation of PPE assets for 20/21.

What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of PPE:

- Consider the work performed by the Group's valuers (newly appointed), 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;
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Revisit our risk assessment and approach to testing the valuation assumptions for Wootton Hall HQ building.
- 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
- Test accounting entries have been correctly processed in the financial statements.

Subject to our detailed risk assessment of PPE valuations, we are likely to engage EY valuation specialists to assist the audit team on a sample of assets, should we determined there is a higher degree of risk for their valuations as at 31 March 2021. We will also consider how the Authority's valuer has addressed the impact of Covid-19 in the year-end valuation of assets and assessment of impairments.

Inherent Risks and 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 and disclosures 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 Group's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Group's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority 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. In addition, every three years, a formal valuation of the whole fund in carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund. The IAS19 report for 2020/21 will reflect the updated membership numbers provided for this triennial valuation. We will therefore need to seek additional assurances from the Pension Fund auditor over this data. An additional consideration in 2020/21 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Northamptonshire Pension Fund, for example private equity investments where valuations as at 31 March 2021 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Group's accounts. The new auditing standard (ISA 540 – Revised) requires auditors to test the method of measurement of accounting estimates to determine whether the actuarial model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance.	Local Government and Police Pension Schemes We will: • Update our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority; • Review the work of the Local Government actuary and the Police Pension actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team to ensure they are in our expected range; and • Review and test the accounting entries and disclosures made within the PFCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports. • For the Guaranteed Minimum Pensions equalisation in the public sector the government have held two consultations in recent years. We expect that any reported impact will be shown as a 'past service cost' in an employer's CIES. However, the accounting treatment will be confirmed by CIPFA and we will assess how the PFCC and CC has complied with any updated accounting guidance. • Review the process of quantifying the effect of equalisation by the pension fund, including from detailed and 'granular' calculations of the actuaries. • To address the requirements of revised ISA 540, we will perform additional procedures by engaging EY Pensions to review the reasonableness of the year-end liabilities recognised on the Authority's balance sheet as at 31 March 2021. Police Pension Scheme (only) We will: • Test a sample of lump sums and pension payments for new Police pensioners; • Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; • Assess management's arrangements to reconcile the active and pensioner membership numbers.

Inherent Risks and Other areas of audit focus (cont.)

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, creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is a presumption that the Group will continue as a going concern for the foreseeable future. However, the Group is required to carry out a going concern assessment that is proportionate to the risks it faces. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. ISA570 has been revised with effect for the 2020/21 financial statement audit. To address the requirement of the ISA, 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 Group's assessment will also need to cover this period.	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; • 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. Our audit procedures to review these will include consideration of: • Current and developing environment; • Liquidity (operational and funding); • Mitigating factors; • Management information and forecasting; • Sensitivities and stress testing; and • Challenge of management's assessment through testing of the supporting evidence and consideration of the risk of management bias.

Other areas of audit focus (cont.)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for Money

The Authority's responsibilities for value for money

The Authority 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.

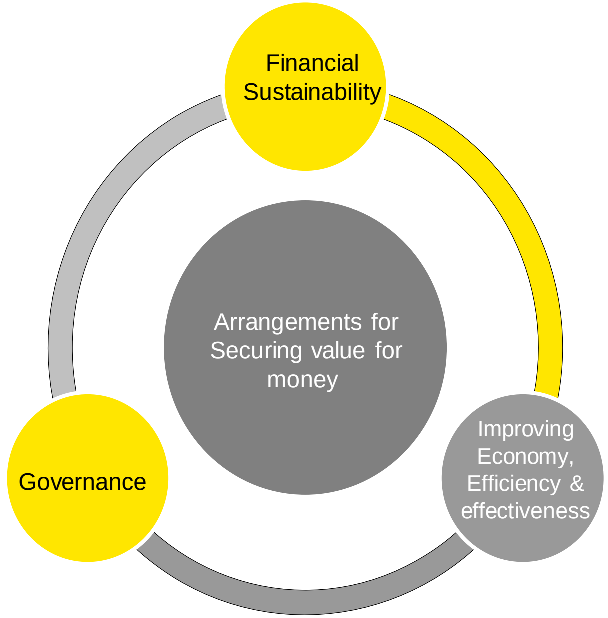
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailor's the content to reflect 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 Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority 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 Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority'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 Authority's arrangements, we are required to consider:

- The Authority's governance statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates 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 Authority 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 Authority'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 Authority;
- 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 Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Value for Money

Responding to identified risks

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

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority 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 Authority'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 not yet started our procedures on value for money planning. In drafting this plan however, we have taken into consideration the 2019/20 value for money work, our audit procedures on the appropriateness of the PFCC and CC going concern disclosures as set out in the 19/20 financial statements, our discussions with the finance team and our knowledge of sector-wide issues that may affect the Group.

Although we have not identified at this stage any risks of significant weakness in arrangements, we will be updating our understanding on the arrangements the PFCCC has entered into in collaboration with PCC & CC of Nottinghamshire. Our understanding is that the PFCC & CC for Northamptonshire and Nottinghamshire set up an LLP (Mint Commercial) in 20/21. Mint Commercial LLP delivered contractual services relating to procurement and contract management. We understand from our discussion with management and observations on relevant agenda items at the recent meetings of the Committee that there have been significant service and performance concerns and as a result both Northamptonshire PFCC and Nottinghamshire PCC gave notice to withdraw from these contractual requirements. The circumstances leading to this are subject to an ongoing PFCC internal review to identify the lessons learnt and future options for procurement and contract management services. We will need to review the outcome of the PFCC internal review and options appraisal to determine, for the purposes of the 2020-2021 value for money work, whether there were significant weaknesses in arrangements for decision making, procurement and contract management during the 2020-2021 financial year and if so, how significant and pervasive this was. In addition, we have asked the PFCC as part of its internal review whether the concerns on service and performance have led to any breaches and/or non-compliance with contract and procurement regulations. Subject to the audit team's review of the PFCCs processes, we may determine it is appropriate to involve specialists in our forensics and integrity services team to determine the nature, timing and extent of any additional audit procedures and associated reporting. In the event where there any identified or suspected non-compliance with laws and regulations which are more than inconsequential in nature, we also need to consult on our audit procedures and reporting with our professional practice team. Even if we establish that the service and performance concerns were more present in the 2021-2022 financial year, we will still undertake our work in parallel with the audit of the PFCC and CC 2020-2021 financial statements to determine if we have any findings and recommendations to report to the Committee ahead of our 2021-2022 audit.
We will continue to update the Joint Independent Audit Committee on the outcome of our VFM planning, any changes to our risk assessment, and our planned response to any identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality levels for 2020/21 for Group, PFCC, CC and Police Pension Fund has been set as below. Our materiality levels will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

Planning Materiality (PM):

- PFCC Group accounts – 2% of gross expenditure (£224.3m) which is £4.49m
- PFCC accounts – 2% of gross assets (£98.4m) which is £1.97m
- CC accounts – 2% of gross expenditure (£197.9m) which is £3.96m

Performance Materiality / Tolerable Error (TE):

- PFCC Group (£3.36m)
- PFCC accounts (£1.48m)
- CC accounts (£2.97m)

Audit Differences Threshold (SAD):

- PFCC Group (£224K)
- PFCC accounts (£98K)
- CC accounts (£198K)

We request that the Joint Independent 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 75% of planning materiality.

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

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

Specific materiality – In certain circumstances, we may set a lower materiality for certain account balances and transactions 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 PFCC and CC'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)

As outlined in Section 03, we are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (cont.)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Reliance on the work of other auditors (Northamptonshire Pension Fund auditor);
- Reliance on the work of experts in relation to areas such as pensions and property valuations; 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.

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 Joint Independent Audit Committee.

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

06 Audit team

Audit team

Audit team structure:

EY Specialists

EY Real Estates team (if appropriate)

EY Pensions team

EY Data Analytics Team

Neil Harris
Lead Audit Partner

Ghulam Hussain
Manager

Usman Khan
Senior

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Newly appointed external valuers of PFCC for PPE valuations EY Real Estate Team (where we determine it is appropriate)
Pensions disclosure	Hymans Robertson (Northamptonshire County Council Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Team

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 Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

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

From time to time matters may arise that require immediate communication with the Joint Independent Audit Committee and we will discuss them with the committee members as appropriate.

The disruption caused by Covid-19 may impact on our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above. The timetable below is therefore provisional and will need to be revisited throughout the period. We will discuss any potential delays to the timetable with officers and the Joint Independent Audit Committee members.

Audit phase	Timetable	Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes	December 2021/ January 2022	15 December 2021	Indicative Audit Plan to PFCC and CC, considered by members of the Joint Independent Audit Committee on their behalf
Walkthrough of key systems and processes	January 2022		
Year end audit	January/ February 2022		
Audit Completion procedures	February/ March 2022	TBC	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	March/ April 2022	TBC	Auditors Annual Report

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 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, 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 Authority. 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.

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.

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.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. 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 2021
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 period ended 2 July 2021 (published November 2021): https://www.ey.com/en_uk/who-we-are/transparency-report-2021

UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it applied after 15 March 2020. The Ethical Standard has a general prohibition on the provision of non-audit services by the auditor (and its network) which applies to UK Public Interest Entities (PIEs). A narrow list of permitted services continues to be allowed. Note that currently the Authority does not currently fall under the definition of a PIE.

Summary of key points

- 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 was applied for otherwise prohibited non-audit services that were 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 Joint Independent Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Joint Independent Audit Committee 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.

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.

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

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 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Audit Fee – NPFCC	22,554	22,554	22,554
Audit Fee – CC	11,550	11,550	11,550
Sub-Total	34,104	34,104	34,104
Additional fee	TBC (see Note 2)	- (see Note 2)	35,453 (see Note 1)
Total Audit Fee	TBC	34,104	69,557

All fees exclude VAT

Note 1:

For 2019/20, PSAA has determined the total additional fee of £35,453, which has been billed to the Authority.

Note 2:

We are currently in discussion with PSAA nationally about an increase to the scale fees for Local Authority audits which would be recurring for 2020-21. For PFCC & CC, we outlined our view that the scale fee should be increased by an amount of £22,183 (i.e. scale fee to increase from £34,104 to £56,287) to reflect the regulatory and professional standards context that is driving our work to safeguard high-quality audits. This is yet to be determined by PSAA and has not been agreed by management.

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, including additional work required to be performed as per ISA540 requirements, which have resulted in additional work. We are not able to quantify the additional work or fee at this stage as our audit has not yet started, but we will discuss this with management once our audit will conclude and the scope and scale of any additional work can be clarified.

In addition to the above, PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit, e.g. minimum additional fees for a Police audit (PCC & CC combined) for new VFM arrangements requirements £6,000 - £11,000, ISA540 (accounting estimates) requirements £2,500. PSAA also revised its hourly rates for calculating the additional fee variations.

Required communications with Joint Independent Audit Committee

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

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Joint Independent Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Indicative Audit Planning Report – December 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – Upon completion of the audit
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Indicative audit planning report – December 2021 Audit results report – Upon completion of the audit

Required communications with Joint Independent Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report – Upon completion of the audit
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 – Upon completion of the audit
Fraud	• Enquiries of the Joint Independent Audit 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 – Upon completion of the audit
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 – Upon completion of the audit

Appendix B

Required communications with Joint Independent Audit Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Indicative Audit Planning Report – December 2021 Audit results report – Upon completion of the audit
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – Upon completion of the audit
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 Joint Independent Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of	Audit results report – Upon completion of the audit
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – Upon completion of the audit

Appendix B

Required communications with Joint Independent Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – Upon completion of the audit
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – Upon completion of the audit
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – Upon completion of the audit
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 – December 2021 Audit results report – Upon completion of the audit

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 1, 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 Authority'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 Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Joint Independent Audit Committee reporting appropriately addresses matters communicated by us to the Joint Independent Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. We will update the Joint Independent Audit Committee prior to our audit of the 2020/21 financial statements on our planned level of audit materiality.

For the Authority, we typically base on our audit materiality on service expenditure as we believe the Authority's expenditure on its core services influence the economic decisions of the users of the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures. The amount we consider material during and 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.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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