Lee Valley Regional Park Authority **LEE VALLEY REGIONAL PARK AUTHORITY** **AUDIT COMMITTEE** **24 JUNE 2021 AT 13:00**	**Agenda Item No:** **5** **Report No:** **AUD/120/21**

EXTERNAL AUDIT 2020/21 - AUDIT PLAN

Presented by the Head of Finance

SUMMARY

As part of the 2020/21 audit, the Authority's external auditors (Ernst & Young) have produced a plan to cover the annual and end of year audit 2020/21. This plan is attached at Appendix A to this report.

The auditor's intention is to undertake a fully substantive audit which will review and report on the financial statements as well as arrangements for securing economy, efficiency and effectiveness in the use of resources. As in previous years it will include a review of the work of the internal auditors, including audit plans and reports, together with reports from any other work completed in the year. The plan also covers other mandatory audit procedures required by auditing standards as well as the financial statements and value for money risks.

Materiality will be assessed prior to the audit of the 2020/21 financial statements. The auditor uses gross assets as the basis of materiality to reflect the fact that the main focus of the users of the accounts has been assessed to be the Authority's stewardship of the assets, rather than the service expenditure.

The plan also highlights any potential risks for producing the financial statements and sets out the auditor's process, strategy and broad timetable.

The plan sets out the scale fee set by Public Sector Audit Appointments Ltd (PSAA) for 2020/21 at £14,337.

RECOMMENDATIONS

Members Approve	(1)	the Authority's position regarding additional Audit Fees as set out at paragraph 8 of this report;
Members Note:	(2)	the External Auditors' Audit Plan for 2020/21 attached at Appendix A to this report; and
	(3)	the proposed annual audit fee for 2020/21 as set out in the financial implications section of this report.

BACKGROUND

1 The role of external audit is to provide an annual independent assessment of how the Authority is discharging its responsibility for the stewardship of public money.

The audit focusses not only on the financial statements but also on Value For Money, particularly in relation to the budget, levy and key projects, for example the Leisure Services Contract (LSC) procurement.

The Auditors' conclusions are reported in their annual Audit Results Report later in the year following the Final Accounts Audit in the Summer. This Plan summarises their work to date and highlights risks which may arise during the course of the annual audit.

2 In previous years preliminary audit work (interim audit) was carried out to assess the Authority's arrangements for ensuring the proper conduct of its financial affairs. In discussion with officers the auditor has provided for this to be completed as part of the year end audit and this is included within the plan.

AUDIT PLAN 2020/21

3 The Audit Plan for 2020/21 is attached at Appendix A to this report.

After consultation, the Ministry of Housing, Communities and Local Government, agreed an amendment to The Accounts and Audit Regulations, extending the date for publication of audited accounts to 30 September for the next two years.

Included at Appendix B to this report, is a copy of EY's national letter to PSAA bodies, highlighting the concerns of the auditor in the approach to delivering the 2020/21 external audits.

4 Section 7 of the Audit Plan sets out a provisional timetable for the audit, with the commencement of the key systems testing and walkthroughs initially planned for September. Note these dates as still provisional and subject to final agreement.

5 The scale fee for 2020/21 is £14,337 which is the same as that charged since 2018/19. However, the proposed fee by the auditor is likely to be higher and may not cover for the specific audit work and risks identified in section 1 (pages 5 & 6) of the Plan which highlights potential risks that may impact upon the completion of the annual audit.

AUDIT LETTER 2019/20 AND ADDITIONAL FEES

6 The Auditor's draft Annual Audit Letter was presented to Members at Audit Committee on 17 December 2020 (AUD/115/20), with a verbal update on the conclusion of the audit on 25 February 2021. However, at that date the additional fees were still to be determined and the final Audit Letter issued.

7 Attached at Appendix C to this report is the Annual Audit Letter for 2019/20 with a proposed additional fee. The proposal is that the Authority contribute an additional £10,866 on top of the £14,337 scale fee set by PSAA, which is summarised in section 6 of the Audit Letter.

8 The view of officers and that expressed by Members at the last Audit Committee

to this proposal was to continue to express considerable concern about the proposed additional audit fees and that they would resist any additional costs.

Whilst it can be accepted that due to Covid-19, whilst not in itself directly relevant to the majority of the 2019/20 year, did impact on disclosure around Going Concern, and property valuation uncertainty, and there are other areas that require further clarification.

The key points to note are summarised below:

- no "forensic" breakdown of the additional fees has been supplied to date;
- no evidence that the additional work carried out was outside the scope of the original scale fee;
- no account of the additional time resource put in by Authority officers to deal with the "inefficiencies"/resource problems of EY during the Audit;
- the Authority's asset base and associated risks had not changed in a number of years. The Authority's valuer provided all detail, calculations and evidence;
- further detail around requirement to engage EY resources to ensure EY were giving the right assurances.

ENVIRONMENTAL IMPLICATIONS

9 There are no environmental implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

10 There are no equality implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

11 The scale fee set by PSAA to be charged by the External Auditor in 2020/21 is £14,337 and is the same as that charged since 2018/19.

12 This fee estimate does not include for any additional costs resulting from the specific audit risks identified in the Plan. Officers believe the existing budget for the External Audit should be sufficient unless a material additional risk arises and therefore impacts upon the standard fee. Members will be kept appraised of this during the Audit and any potential variation will be reported to this Committee and the Executive Committee as part of the regular revenue budget monitoring.

HUMAN RESOURCE IMPLICATIONS

13 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

14 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

15 There are no risk management implications arising directly from the recommendations in this report although the audit plan does highlight financial statement risks that are likely to impact on the Audit and subsequently impact on the final fee.

16 If Members reject the auditor's proposal to the additional fees for 2019/20 the auditor may still submit these to PSAA who may agree with the auditor's assessment and deem the extra fee is payable. The written views of the Authority will be put to the PSAA if Members agree to resist the additional charge for 2019/20.

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PREVIOUS COMMITTEE REPORTS

Audit Committee	Verbal	External Auditor Update on 2019/20 accounts	25 February 2021
Audit Committee	AUD/115/20	External Auditor's Audit Results Report – 2019/20 Accounts	17 December 2020

APPENDICES ATTACHED

Appendix A	The Audit Plan 2020/21
Appendix B	EY National Letter to PSAA bodies – June 2021
Appendix C	Annual Audit Letter for the year ended 31 March 2020

ABBREVIATIONS

PSAA	Public Section Audit Appointments
LSC	Leisure Services Contract

Appendix A to Paper AUD/120/21

Lee Valley Regional Park Authority

Initial Audit planning report

Year ended 31 March 2021

June 2021

Private and Confidential

June 2021

Lee Valley Regional Park Authority
Myddelton House, Bulls Cross
Enfield, Middlesex
EN2 9HG

Dear Audit Committee Members

Initial Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 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 Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority and outlines our planned audit strategy in response to those risks. This takes into consideration our findings on the 2019/20 audit, discussions with the finance team as well as our knowledge of sector-wide issues that may affect the Authority. We will inform the Audit Committee if there are any significant changes or revisions once we have completed our audit planning procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

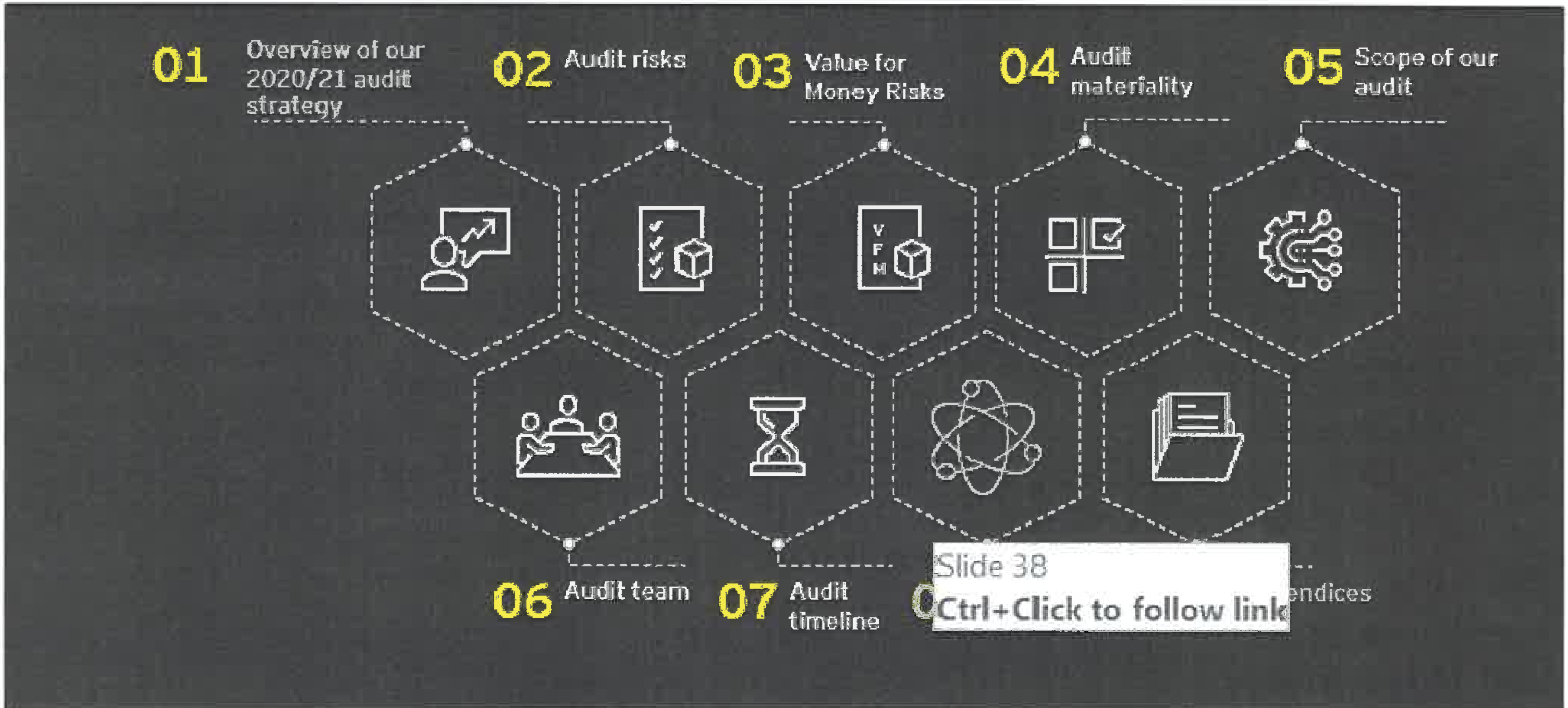
We welcome the opportunity to discuss this report with you on 24th June 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit Committee and management of Lee Valley Regional Park Authority, in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of 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 Lee Valley Regional Park Authority 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 Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	**No change** in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We will consider during the course of our audit whether in light of the Authority experiencing ongoing procurement and legal challenges, there is a heightened risk on the appropriate recognition and accounting for provisions.
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 Authority's capital programme.
Pension liability valuation	Inherent risk	**No change** in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority'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 we consider this to be a higher inherent risk.
Valuation of land and buildings, including investment properties	Significant risk	**No change** in risk or focus	Property, Plant and Equipment (PPE) and Investment Properties (IP) represents not only significant balances in the Authority's accounts but drives the strategy and operational objectives of the Authority. Valuations are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE and IP balances held in the balance sheet. As the Authority's asset base (particularly six sports centres) remains significant and specialised, and the outputs from the valuer are subject to estimation, there is a higher inherent risk assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates which we are likely to do with specialist support from our EY Real Estates team.

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: Compliance with ISA 570	Inherent risk	No change in risk or focus	This Going Concern auditing standard (ISA 570) 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 extends requirements to report to regulators where we have concerns about going concern. In particular for the 2020/21 audit we will undertake sufficient and appropriate audit procedures to review the adequacy of management's disclosures, assumptions and stress testing on their assessment of going concern in response to Covid-19.
Revenue recognition	Significant risk	New risk for 2020/21	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We evaluated which types of revenue and transactions may give rise to this risk and concluded that revenue from fees, charges and service income is material; generally comprise low value high volume transactions. The authority also receive income from ticket sales from Leisure Services which is also partly cash based, this transaction stream does provide an opportunity for management manipulate revenue recognition. **However, note that this is an indicative position and we will revisit this once we have obtained and assessed more information during our planning procedures**
Accounting for Covid-19 related government grants (including SFC losses compensation scheme)	Inherent risk	New risk for 2020/21	The authority has received additional funding in relation to Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position. We will consider the elements of grant income, their susceptibility to manipulation and the appropriate audit response. We will review the conditions and restrictions attached to the grants, the purpose of the grants and circumstances if the Authority acts as a principle or an agent **However, note that this is an indicative position and we will revisit this once we have obtained and assessed more information during our planning procedures**

Overview of our 2020/21 audit strategy

Materiality

Planning materiality
£4.535m

Materiality has been set at £4.535m, which represents 2% of the gross non current asset base presented in the audited 2019/20 financial statements

Performance materiality
£3.401m

Performance materiality has been set at £3.401m, which represents 75% of materiality.

Audit differences
£0.226m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, and cash flow statement) greater than £0.226m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

For Income and Expenditure, as the values are disproportionately lower than assets, we set a lower performance materiality of £394,000 using gross expenditure as a base, with performance materiality, at 75% of overall materiality, of £295,725 and a threshold for reporting misstatements of £19,715

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Lee Valley Regional Park Authority 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 Authority'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 Authority'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 Authority.

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

Overview of our 2020/21 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 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.

Timeline

MHCLG 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 implemented these changes, were laid on 9 March and came into force on 31 March 2021. Since these are very recent developments, in Section 07, we have therefore included a provisional timeline for the audit, which is subject to final agreement

Fees

We include further details on the planned fees for 20/21, and factors affecting the scale fee, 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. We will notify you of any changes to our assessment of risks as they occur.

Misstatements due to fraud or error*

What is the risk?

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

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

What will we do?

This is a risk that we recognise on all engagements. Our overall response to this for Lee Valley Regional Park Authority is:

- 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 for safeguarding against 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 for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.
- We will assess accounting judgements and disclosures associated with the ongoing litigation with the Lee Valley Leisure Trust to ensure compliance with Accounting Standards

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. We will notify you of any changes to our assessment of risks as they occur.

Inappropriate capitalisation of revenue expenditure*

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 and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition. We will undertake specific testing to address this risk.	▸ Should capital expenditure be material to the financial statements, we will undertake additional procedures to address the specific risk we have identified, which will include: ▸ Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital, in accordance of CIPFA Code, and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

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. We will notify you of any changes to our assessment of risks as they occur.

Risk of error in the valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Authority's accounts anc are subject to valuation changes, impairment reviews and depreciation charges. The managemer and maintenance of assets also drives the strategy and operational objectives of the Authority. Materi judgemental inputs and estimation techniques are required for assets (particularly the six Olympic sport park venues) which remain significant and highly specialised. The economic uncertainty currently being experienced may affect investment values for assets held (including both property assets and those held by pension funds). Consequently we may see unusual fluctuations in the values of certain assets. ISAs(UK and Ireland) 500 and 540 require us to undertake procedures o the use of experts and assumptions underlying fair value estimates which we are likely to do with specialist support from our EY real estates team.

What will we do?

Our work in this area involves:

- Considering the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Consulting with the EY Real Estates team on significant assets and identifying whether key assumptions or the valuation methodology of other assets have changed and understanding the rationale, involving EY Estates as necessary;
- Testing inputs into a sample of valuations to ensure that they are appropriate and supportable;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated and;
- Testing accounting entries have been correctly processed in the financial statements.

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. We will notify you of any changes to our assessment of risks as they occur.

Pension net liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regardin[g] its membership of the Local Government Pension Scheme administered by Lee Valley Regional Park Authority.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this net liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £26.9million The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the London Pension Fund Authority.

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 54C require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates

What will we do?

- Our work in this area involves:
- Liaise with the auditors of LPF, to obtain assurances over the information supplied to the actuary in relation to Lee Valley Regional Park Authority;
- Assessed the work of the Pension Fund actuary (Barnett Waddingham 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
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

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. We will notify you of any changes to our assessment of risks as they occur.

	What is the risk?	What will we do?
Risk of fraud in revenue recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We evaluated which types of revenue and transactions may give rise to this risk and concluded that revenue from fees, charges and service income is material; generally comprise low value high volume transactions. The authority also receive income from ticket sales from Leisure Services which is also partly cash based, this transaction stream does provide an opportunity for management to manipulate revenue recognition.	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 SFC income: • Understand the Authority's revenue recognition policy • Understand the key controls • Perform substantive analytical procedures, with a lower testing threshold • Consider using data analytics to identify, for example, key correlations • Consider any further detailed transaction testing requirements based on the results of the above procedures. **However, note that this is an indicative position and we will revisit this once we have obtained and assessed more information during our planning procedures**

Other areas of audit focus (continued)

What is the risk?

Going concern

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress leading to increased expenditure in specific services, and reductions in income sources. There remains uncertainty over the degree of financial support from central government that covers all financial consequences of Covid-19.

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 Authority 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 authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority 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 auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

What will we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

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

These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these will include consideration of:

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

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Recognition of grant income associated with Covid-19 The Authority has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position.	We will: ▶ Consider the revenue and capital grants received by the Authority; ▶ We will consider any conditions and restriction attached to the grants; ▶ Assess the potential for manipulation of individual grant streams (including those related to business rates); and ▶ Responsive to the risk, carry out testing to ensure the accounting treatment and recognition applied to grant income is appropriate. **However, note that this is an indicative position and we will revisit this once we have obtained and assessed more information during our planning procedures**

Other areas of audit focus (continued)

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:

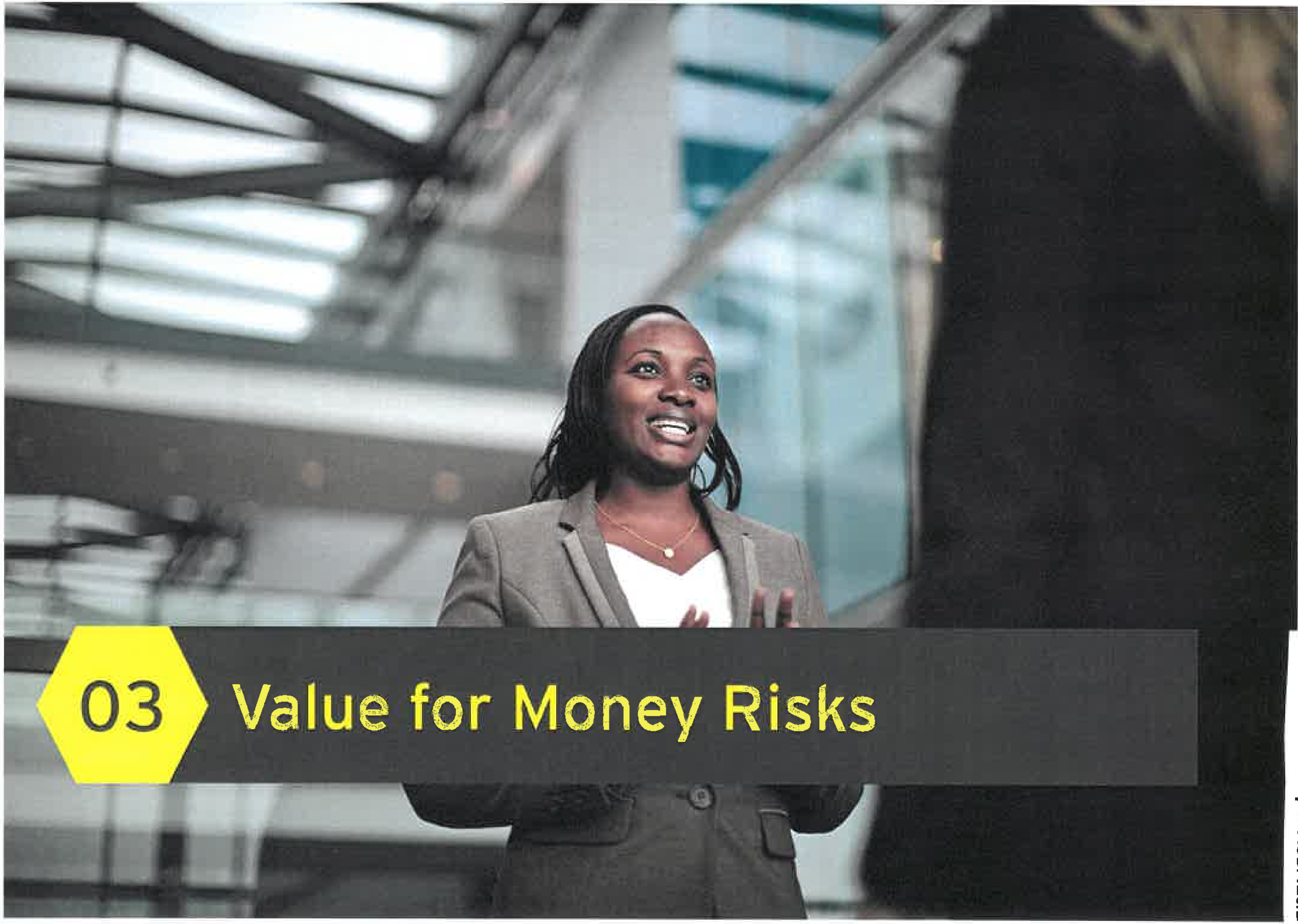
We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.

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.

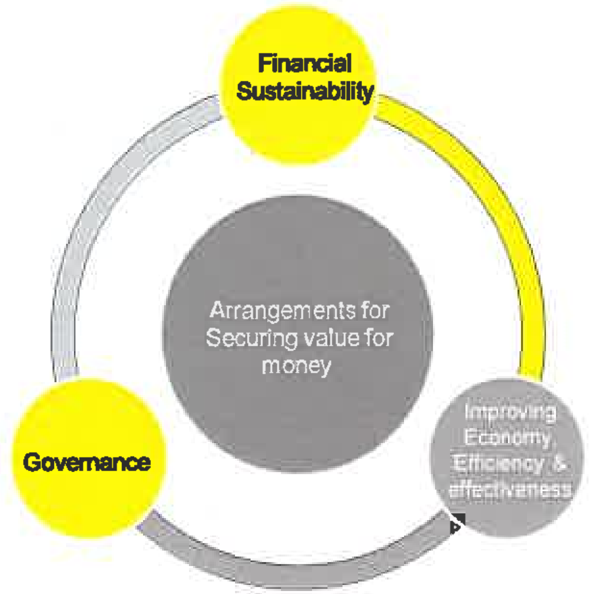
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailor's the content to reflect 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 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 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 yet to commence our detailed VFM planning. Our initial risk assessment has resulted in the identification of a significant risk noted on the following page which we view as relevant to our value for money conclusion.

Value for Money

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Ice Centre Capital Development Project When finalising the 19-20 Statement of Accounts , the Authority was considering whether to proceed with the development of the Ice Centre Capital project with borrowings of £30million expected. In April 2021, the Authority has taken a decision to proceed with the development of the Ice Centre capital project. As this is a material decision and a significant area of spend for the Authority, we identified this as a risk of significant weaknesses in arrangements for the basis of the informed decision which would have taken place in the period before the 31st March 2021. We will perform specific audit procedures to respond to this to determine whether there are significant weaknesses in the decision making arrangements for the approval of the project, how pervasive these are, and whether any decisions could lead to any risk of non-compliance with laws and regulations.	• Governance • Improving economy, efficiency & effectiveness	We will: • Document our understanding of the underlying rationale for the Ice Centre Project and clarity on how this sits with the Authority's strategy and objectives, including the consideration of options and alternatives; • legal powers and other advice obtained e.g. tax, investment decisions; • clarity of governance arrangements for the Authority's decision making with regard to their regeneration and investment property decisions; • recognition and reporting of risks in the Corporate risk register; • robustness of assumptions from commercial developments in the Authority budget and medium term financial strategy; and • Authority's business planning process for undertaking significant capital projects.

04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £4.535 million. This is 2% of the gross non current asset base. Materiality will be reassessed throughout the audit process. We have provided additional information about audit materiality in Appendix C.

Gross non current asset
£226.8m

Planning materiality
£4.535m

Performance materiality
£3.401m

Audit differences
£226k

For Income and Expenditure, as the values are disproportionately lower than assets, we set a lower performance materiality of £394,000 using gross expenditure as a base, with performance materiality, at 75% of overall materiality, of £295,725 and a threshold for reporting misstatements of £19,715

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

Key definitions

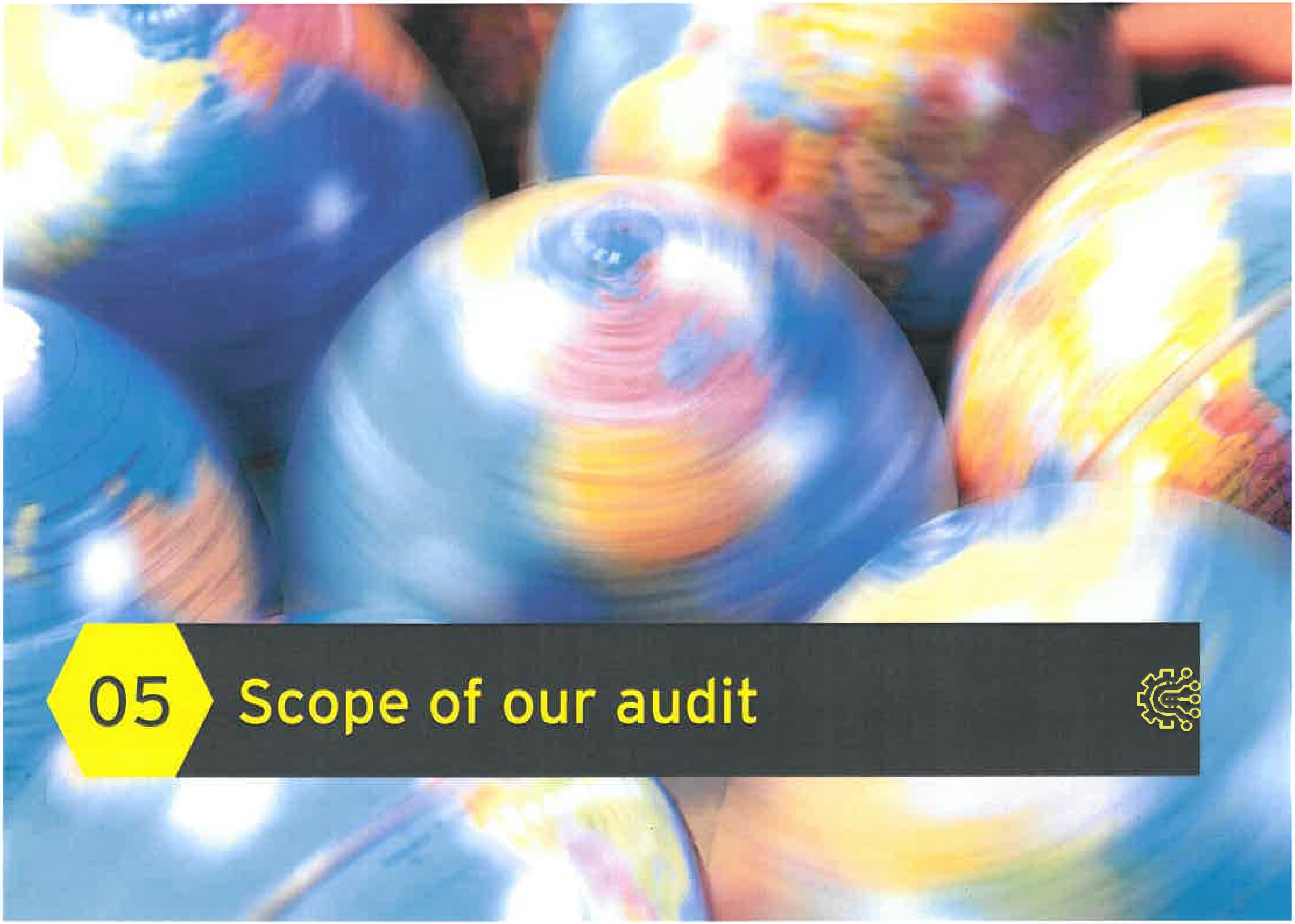
Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.401 million which represents 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 audit committee, or are important from a qualitative perspective.

Specific materiality – We will set a lower level of materiality 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 Authority'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 audit reports that cover:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

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

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Authority's 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

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Reliance on the work of other auditors (London 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.

Our audit strategy will, as in previous years, have a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We still assess this as the most efficient way of carrying out our work.

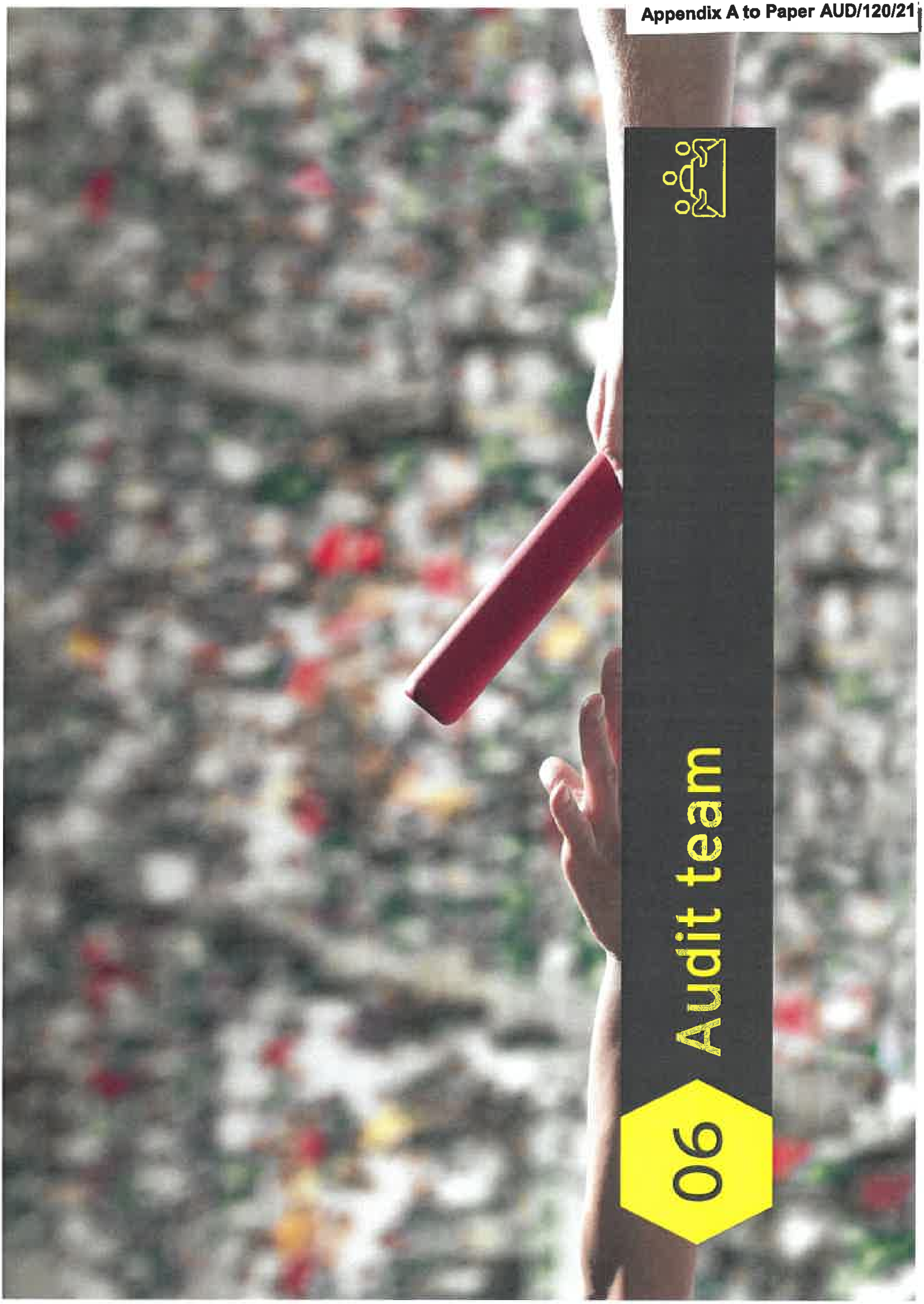
Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

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

Internal audit:
As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit planning, where they raise issues that could have an impact on the year-end financial statements.

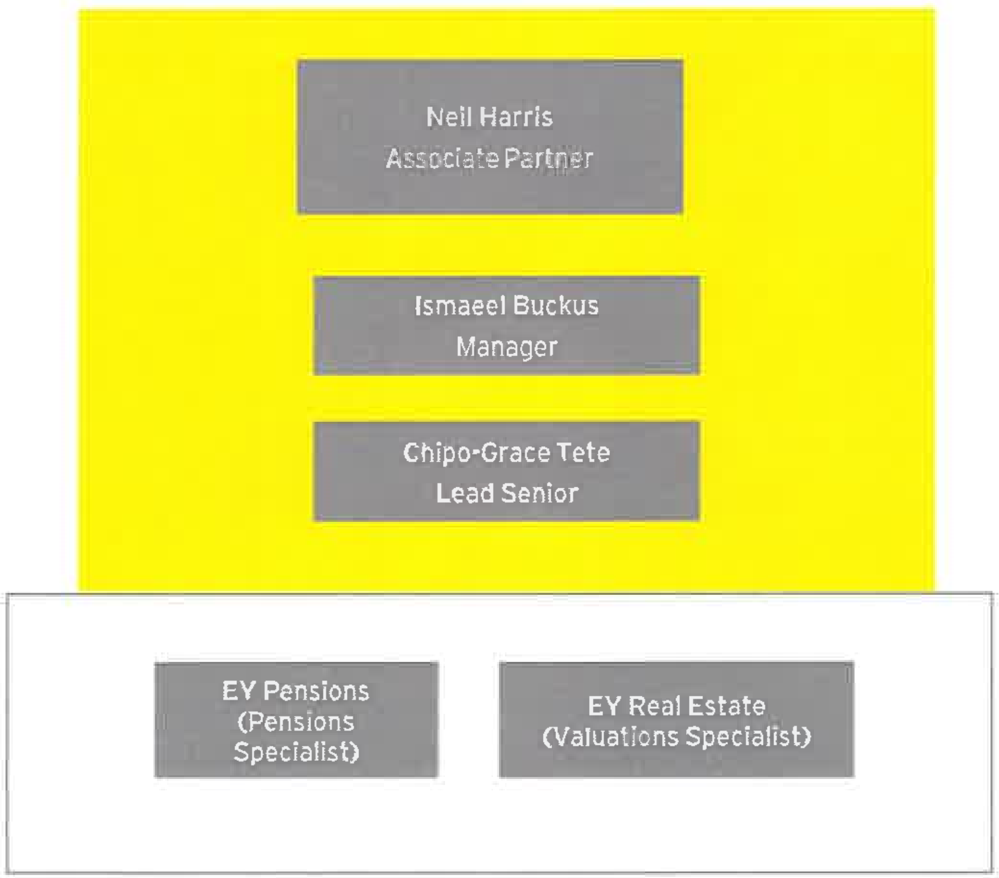
Appendix A to Paper AUD/120/21



06 Audit team

Audit team

Audit team structure:



Use of specialists

Audit Process Overview

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	EY Valuations Team
Pensions disclosure	EY Actuaries

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

We also consider the work performed by the specialist in light of our knowledge of the 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

Provisional Timeline

Below an indicative timetable showing the key stages of the audit and the planned deliverables we have agreed to provide to you through the audit cycle in 2020/21. Please note that we will communicate any changes to this plan to officers and members as soon as we can. From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

MHCLG have confirmed that the target date for the publication of audited financial statements for the 2020/2021 financial year is the end of September 2021. Earlier this year we discussed a proposed timetable for the external audit of financial statements. We have provided comments to MHCLG officials and the National Audit Office on the timetables for Local Government financial reporting and audit in response to the NAO study on the timeliness of audit opinions, and the importance of a sustainable timeline that safeguards professional standards and the quality and transparency of Local Authority financial reporting and audit. As a firm, we are in the process of finalising the scheduling of our 2020-2021 Local Government audits to take account of the impact of concluding outstanding 2019/2020 audit opinions and an up to date assessment of each of our Local Government entities risk assessment and readiness for audit. We issued a national letter in early June 2021 to Chief Financial Officers and Audit Committee Chairs setting out the latest position and principles guiding the delivery of our work this year. We will discuss any significant updates to our scheduling of the Authority'ss audit of accounts with the Chief Financial Officer, finance team and the Audit Committee as appropriate.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	June	Audit Committee 24 June 21	Audit Planning Report
Walkthrough of key systems and processes	September		
VFM planning	September		
Testing of valuations and key accounting judgements	September- October 21		Timing to be confirmed
Year end audit/ VFM conclusion	September-December 21		Timing to be confirmed.
Audit Completion procedures	September-December 21	Audit Committee September-December 21 (Timing tbc)	Audit Results Report Audit opinion and completion certificates
Conclusion of reporting	September-December 21	Timing tbc	Annual Auditor's Report including commentary on VFM arrangements.

08 Independence

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 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 is for the year end 30 June 2020:
https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

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 Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the 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
	£	£	£
Total Fee - Code work	14,337	14,337	14,337
Property valuations significant risk and use of EY Real Estate Specialist	TBC		4,360
Additional work on pensions	TBC		2,679
Property valuations material uncertainty	TBC		1,384
Going concern disclosure	TBC		1,404
EY consultations on auditor report	TBC		1,039
Total Audit Fee	TBC		24,570

All fees exclude VAT

Notes:

1. **We are currently in discussion with PSAA nationally about an increase to the scale fee. For Lee Valley Regional Park Authority we proposed revised scale fee of £55,180. This is yet to be determined by PSAA.**
2. **We have yet to agree the proposed additional fee with officers and is subject to PSAA approval..**
   Ranges for 2020/21 additional fees based on prior year experience where appropriate.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Authority;
- The Authority has an effective control environment;
- EY internal consultation on the audit report in line with 2019/20.

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

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

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

Appendix B

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report June 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 TBC

Appendix B

Required communications with the 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
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 - TBC
Fraud	▶ Enquiries of the 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 - TBC
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 - TBC

Required communications with the 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	Audit planning report June 2021 Audit results report - TBC
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - TBC
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 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 - TBC
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit results report - TBC

Appendix B

Required communications with the 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 - TBC
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - TBC
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - TBC
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	Audit planning report - June 2021 Audit results report - TBC

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

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. We will update the 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 gross assets as opposed to service expenditure as we believe the Authority's stewardship of its assets influence the economic decisions of the users of the financial statements. We do set specific and lower testing thresholds to inform the level of work we perform on revenue transactions.

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 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.

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Addressed to Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies (Local Government, Police and Crime Commissioners, Chief Constables, Fire and Rescue Authorities)

Sent by email

1 June 2021

Ref: JD/NH

Direct line:

Email: jdawson1@uk.ey.com

Dear Chief Financial Officer and Audit Committee Chair

Scheduling high-quality 2020/2021 local public audits

In February 2020, I wrote to you to address the concerns we all share regarding the sustainability of financial reporting and auditing in England. Since then, we have collectively had to respond to all the unprecedented challenges that have arisen following the coronavirus pandemic (Covid-19). Thank you for the way you and your officers have responded to these difficult circumstances in the public interest and supported my teams with our audits.

Over the past six months, the Sir Tony Redmond review, Ministry of Housing, Communities and Local Government (MHCLG) response and recent consultations on 2020/2021 reporting timetables have sought to put in place measures to address the much needed stability of the local public audit market.

The National Audit Office's (NAO) recent report on the timeliness of local auditor reporting in England explored the factors that have led to the increasing delays to the delivery of audited financial statements. We contributed to this review and recognise most of the NAOs findings. In particular we agree with the NAOs comments that the Covid-19 pandemic has had a significant impact on the delivery of the 2019-2020 audits, the financial position of audited bodies and exacerbated problems which already existed within the local audit landscape.

I want to set out the principles which will guide the scheduling of our 2020/2021 external audits and how we will work with you as and when Covid-19 restrictions are eased. This will support conversations your Audit Partner will be having with you as we plan and deliver your 2020/21 external audit.

Context guiding our scheduling of 2020/21 external audits

On the 31st March 2021, MHCLGs amendments to the 2021 Accounts and Audit Regulations came into force. This sets an expectation that you have up to the 1st August 2021 to publish draft financial statements, and the target date for the publication of audited accounts is 30 September 2021.

We have said in response to MHCLG's consultation on the reporting timetable that we do not believe this is realistic or sustainable for the following reasons:

- The continuing impact of Covid-19 restrictions on the financial reporting and audit cycle across the corporate and public sectors. Our UK Head of Audit wrote to your peers for our corporate audits on 27th January 2021 setting out the impact on reporting timetables, reinforcing guidance issued from the Financial Conduct Authority and the Financial Reporting Council (FRC). This letter is appended for your information.

- Impact of later completion for remaining 2018/2019 and 2019/2020 local public audits, and the delay that has resulted in starting 2020/2021 audits. Practically, this means significantly more audit work will be required in the final stage of our audits in August and September 2021 than is usual, especially as little interim procedures have been performed by 31st March.

- We expect and do understand why some of you will take the opportunity of getting ready to produce draft accounts by the 1st August. However, doing so leaves auditors only two months to complete the audit, including the month of August when we anticipate with the lifting of Covid-19 restrictions, your officers and our staff may plan to take annual leave.

- One of the many issues recognised by the Redmond review is that there are insufficient numbers of skilled and specialist local auditors to deliver local audit within such a shortened timeframe. The implication of the reporting timetable is to require auditors to move at an even faster pace to catch up, which does not safeguard audit quality and our professional standards. We are also concerned that this timetable could do irreparable damage to the attractiveness of the local audit profession.

- Additional work required by finance teams and auditors to respond to the increasing complexity of decision making, including commercialisation and group accounting. Covid-19 has exacerbated this and led to greater levels of estimation, uncertainty and risk in financial reporting and financial sustainability. This will continue to require additional procedures for your teams and ours, including the use of specialists and navigating professional practice consultations.

- Other jurisdictions such as Audit Scotland are proposing to revise the 2020/2021 local authority reporting timetable to the 30th November 2021 in recognition of these circumstances.

Delivering our 2020/2021 external audits

We have said to MHCLG, NAO and Public Sector Audit Appointments Limited (PSAA) that our approach will continue to be to plan and perform our audits to safeguard our highest standards of quality. The FRC are currently inspecting a sample of our 2019/2020 audits but have recognised the good quality of our local public audits last year.

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We believe a high-quality audit is even more important in these challenging and unprecedented times and will not compromise or reduce our expectations. We will provide our audit opinion when we are satisfied that we have performed sufficient quality work to support our judgements, rather than by a certain and potentially unrealistic date. This means we will be scheduling a number of 2020/2021 external audits for completion after the 30th September 2021.

I am aware some but not all of you will have already had discussions with your Audit Partner on provisional timetables. I do encourage you and the Audit Partner to collectively consider all the challenges that have arisen since Covid-19 restrictions and make an informed joint assessment on a realistic and achievable timetable that ensures the quality of financial reporting and audit is not compromised. This assessment should consider the finance and audit team constraints and the complexity of the financial reporting and audit process.

Each of our regional office leads is finalising their delivery plan for the 2020/21 external audits. The proposed timing of your external audit is being determined using a consistent set of principles to ensure we have a fair and equitable basis for scheduling audits before the 30th September 2021 and those afterwards. These principles include the plans to conclude overdue 2018/19 and 2019/20 external audits, our assessment of your preparedness for audit, expectation on level of audit errors and findings, the degree of risk and complexity including any significant changes since the prior year and maximising our availability of qualified and experienced audit staff and specialists.

Ways of working

I am aware that you will be having ongoing dialogue with MHCLG on how the easing of Covid-19 restrictions will impact on your operations and ways of working, now and in the future.

Generally, we have found that our technology (EY Canvas, EY Canvas portal and Microsoft Teams) has been successful and resilient, supporting high-quality audits. This has led to more flexibility and agility on the way in which remote audits are conducted. We intend to follow these working practices again with you and your teams for the 2020/2021 audits, and therefore I am not expecting full-time on-site audit presence. These principles will also support how we work with you on our move to an increasingly digital and data-driven audit in the future.

In addition, your Audit Partner and Engagement Manager have been more productive and flexible by their ability to attend more meetings virtually, eliminating significant travel time and contributing to our net carbon targets. I am not expecting our more senior staff to be attending meetings with management and Audit Committees in person in every case when restrictions are eased.

I do recognise though that there may be circumstances which mean we do need to be flexible and proportionate. I have asked your Audit Partner and Engagement Manager to discuss with you and your finance team and arrive at a shared understanding on the planned working arrangements and approach this year. This is particularly important to support discussions with new members of Audit Committees post the May 2021 local elections.

Next steps

I am keen that we have a collective and combined focus to work together and navigate the challenging months ahead and, importantly, to agree the proposed timing of your 2020/21 external audit and how we work with you this year.

We are continuing to work with MHCLG, CIPFA/LASAAC, ICAEW, NAO and PSAA to share our point-of-view on those areas that are critical to stabilise the local public audit system and improve the sustainability of financial reporting and audit in England, and I provided evidence to the Public Accounts Committee last month on those issues. We will be responding to further consultations from MHCLG and others on the implementation of the Redmond recommendations. We will also be considering the implications for financial reporting and local public audit following the recent Department for Business, Energy & Industrial Strategy consultation on reforms to corporate governance and the audit profession. Your Audit Partner will be able to discuss our point of view with you and at your future Audit Committee meetings.

In the meantime, if you have any questions on this letter, please do not hesitate to contact me using the details provided.

Yours faithfully,

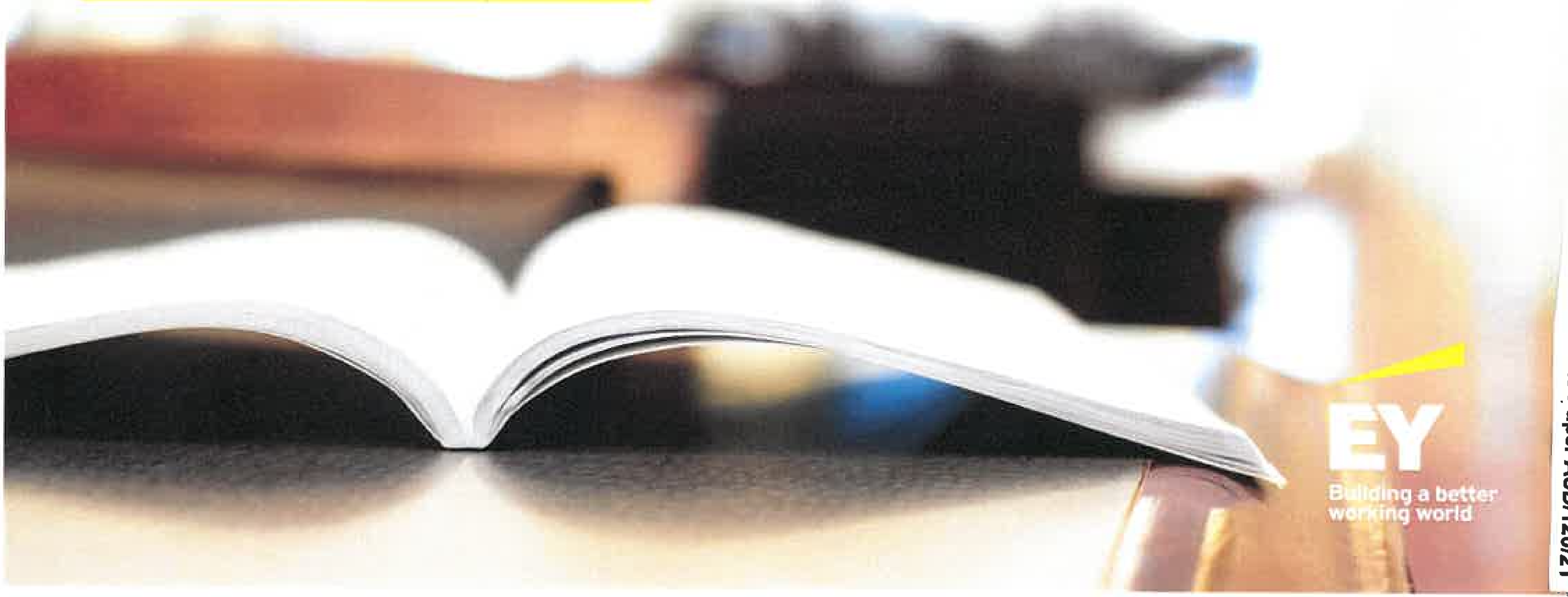
Janet Dawson

Janet Dawson
UK Government and Public-Sector Assurance Leader
Ernst & Young LLP

Lee Valley Regional Park Authority

Annual Audit Letter for the year ended 31 March 2020

May 2021



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Contents

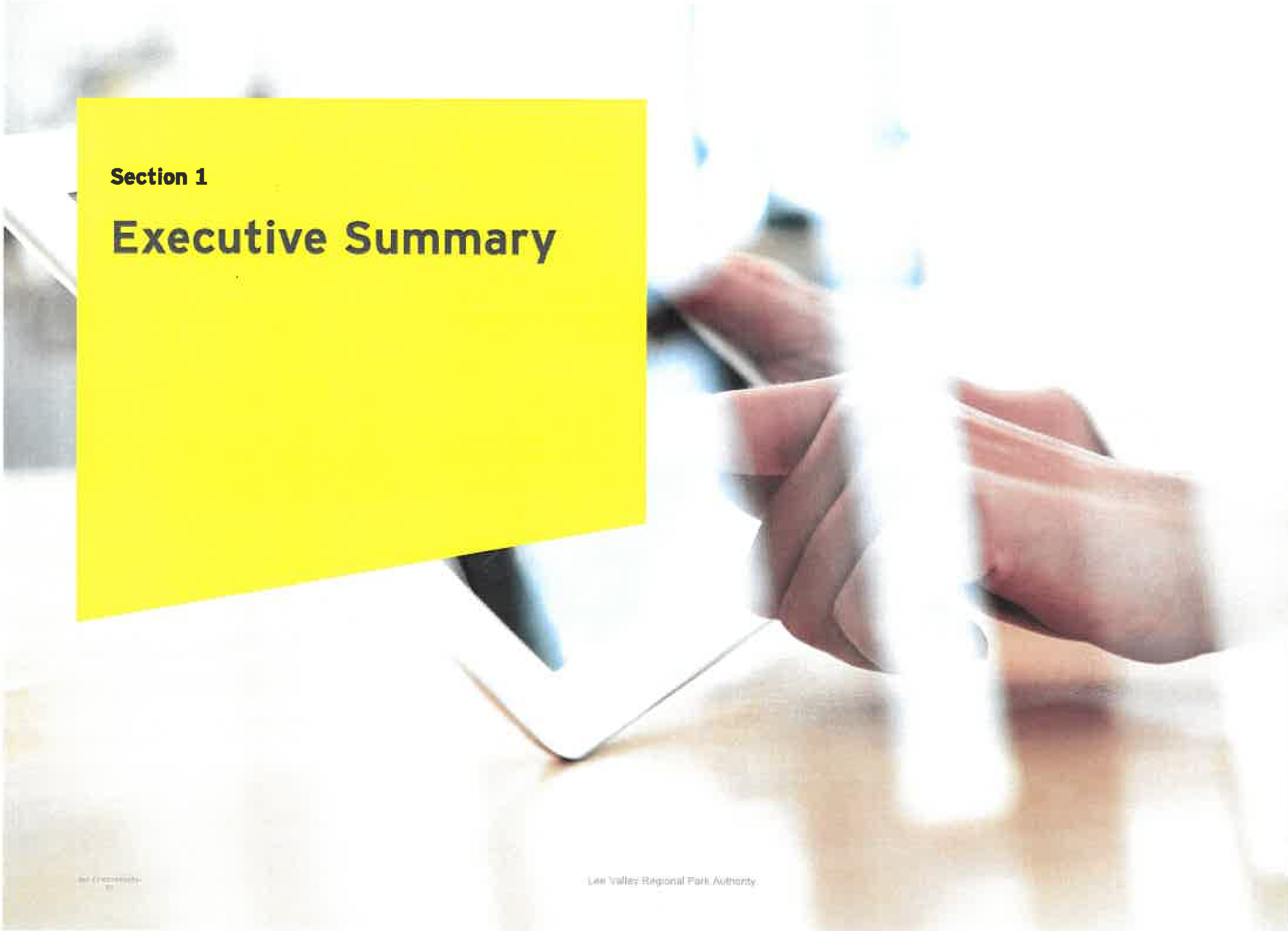
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). .

This 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 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Lee Valley Regional Park Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We issued our audit report on 30 March 2021. The delay was due to management establishing the Authority's budget for subsequent years. This was reviewed by our technical team to support our going concern assessment for next 12 months from the date of audit report.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk: ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▶ Agreed IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's :	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended. Our audit opinion included an emphasis of matter paragraphs on Other Land & Building and Investment property valuation and on Going Concern. These are not modifications or qualifications to the audit report
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
▶ Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	We had no matters to report. The Authority is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the 15th December 2020 Audit Committee and a further update was provided on 21 February 2021
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 March 2021

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 15th December 2020 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 27th February 2020 Audit Committee. Our audit is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 March 2021.

Our detailed findings were reported to the 15th December 2020 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error 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.	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business We have received and believe the Authority has made appropriate disclosures and accounting judgements associated with the ongoing litigation with the Lee Valley Leisure Trust. We have also received corroborative evidence, via sealed consent order, of the Trust's discontinuance of its legal claim associated with its procurement challenge on the Leisure Services contract award
Misstatements due to fraud or error - Inappropriate capitalisation of revenue expenditure 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 and REFCUS as an area of risk, given the extent of the Authoritys capital programme.	We did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Valuation of Property, Plant and Equipment and Investment Properties The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 6 of the accounts reference to the valuers material uncertainty. Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2019/20 and the potential for material misstatement in the valuation of those assets. We engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.	The Authority's internal valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. We requested the Authority repeat the 'material uncertainty' in the statement of accounts. Based on the work we have undertaken we are satisfied that the carrying value of PPE and IP disclosed in the financial statements is materially accurate. We included an emphasis of matter paragraph in our audit report highlighting the Authority's disclosure in this area to the reader of the accounts. For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements. Our audit work did not identify any material issues.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Pension liability valuation	The Authority's pension liabilities were appropriately disclosed in the accounts. We have considered the IAS19 assurance letter from the auditor of the Pension Fund. This letter noted some exceptions related to the Authority. Management have deemed this to be immaterial. We note that as it did not have a material impact on the pension liability and as it was below our reporting level, no further action was required.
Going concern disclosure There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis.	The Authority has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into March 2020/21 and 2021/22 and made an appropriate disclosure in the financial statements. We have reviewed and challenged management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias We included an Emphasis of Matter in our audit report to describe the financial and operational disruption the Authority is facing as a result of COVID-19 and the additional pressure that this presents to expenditure and funding.
Recognition of grant income associated with Covid-19	Our audit procedures for recognition of grant income did not identify any audit issues.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We communicated that our audit procedures would be performed using a materiality of £4.535million using gross assets as a base, with performance materiality, at 75% of overall materiality, of £3.401million. For Income and Expenditure, as the values are disproportionately lower than assets, we set a lower performance materiality of £394,000 using gross expenditure as a base, with performance materiality, at 75% of overall materiality, of £295,725. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences to you in our Audit Planning Report remain appropriate
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.226million and a threshold for reporting misstatements of £19,715 for Income and Expenditure.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits
- Related party transactions

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

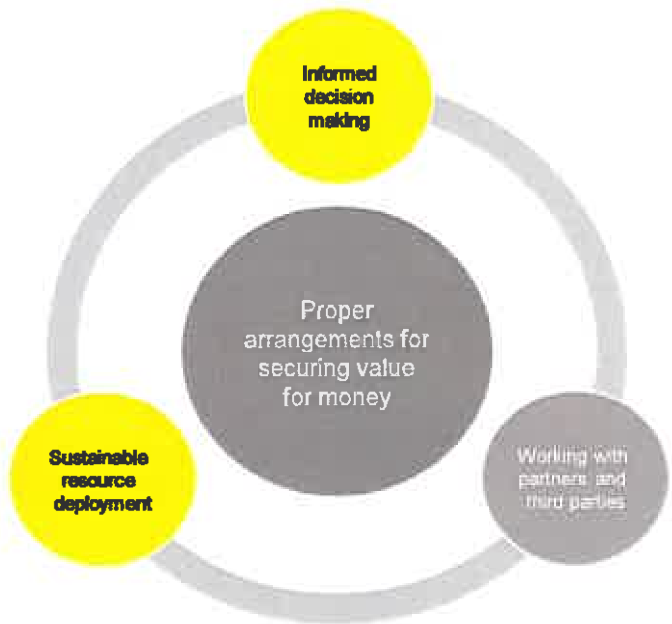
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider local authorities response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We reported in detail as part of the Audit Results Report and do not repeat our findings here.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes.

The Authority is below the specified audit threshold of £500m. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee in September 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Section 6

Audit Fees

Audit Fees

Fees

In the Final Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have now quantified the proposed fee. We will shortly discuss the proposed additional fees with the s151 officer after providing supporting details. We will then seek approval from PSAA.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee	14,337	14,337	14,337
Property valuations significant risk and use of EY Real Estate Specialist	4,360	-	7,000
Additional work on pensions and Quality	2,679	-	3,233
Property valuations material uncertainty (Note 1)	1,384	-	N/A
Going concern disclosure (Note 2)	1,404	-	N/A
EY consultations on auditor report (Note 3)	1,039	-	N/A
Total audit	**25,203**	**14,337**	**24,570**
Other non-audit services	N/A	N/A	N/A
Total other non-audit services	**N/A**	**N/A**	**N/A**

Notes:

1. *We have carried out additional work in response to the material uncertainty reported by the Authority's valuer on investment property valuations. This has led to an emphasis of matter paragraph in the audit report. This cost also includes a reassessment of materiality required on all audits as a result of the Covid-19 impact on the business and planning and the impact of remote working*
2. *We have carried out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.*
3. *To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*

Please note that our fee analysis above represents proposed variations to the Authority's scale fee of £14,337 consistent with changes in audit scope, risk assessments and findings from our audit procedures. The proposed variation set out above is not the same as the exercise we undertook at the planning stage of the audit to reassess what we believe the baseline (or scale) fee should be to deliver sustainable high quality audits and address the professional, regulatory expectations and risk environment we are experiencing. We have discussed with the Authority's finance officers (and set out in our audit planning report) that our assessment is that the scale fee should be increased from £14,337 to £55,180. We have provided this information to PSAA who will determine whether there should be any changes to the baseline fee

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