



**North Tyneside  
Council  
Provisional Audit  
Planning Report**  
Year ended 31 March 2021

May 2021

**Private and Confidential**  
Audit Committee  
North Tyneside Council  
Quadrant  
The Silverlink North  
Cobalt Business Park  
North Tyneside  
NE27 0BY

May 2021

Dear Audit Committee Members

**Audit planning report**

We are pleased to attach our audit planning report 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 2020 Code of Audit Practice, 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 North Tyneside Council (the Council), and outlines our planned audit strategy in response to those risks. Our audit planning process is still underway and, if there are any significant changes to our audit strategy as a result of this process, we will provide updates of any material changes to the Audit 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 26 May 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Stephen Reid, Partner

For and on behalf of Ernst & Young LLP

# Contents



The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement contract of 2 October 2017.

This report is made solely to the Audit Committee and management of North Tyneside Council in accordance with our engagement contract. Our work has been undertaken so that we might state to the Audit Committee and management of North Tyneside Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of North Tyneside Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Overview of our 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
<p>Risk of fraud in revenue and expenditure recognition - inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements</p> <p>(Group and Council)</p>	Fraud risk/ Significant risk	Change in focus	<p>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.</p> <p>Our judgement is that the significant risk at the Council relates to the improper recognition of grants with terms and conditions attached, the improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements. We will therefore target our audit work in these areas. We note from our initial discussions with management, that Covid-19 funding in excess of £100 million has been received during 2020/21. We will specifically consider this funding stream as part of our consideration of grants with terms and conditions.</p>
<p>Misstatements due to fraud or error</p> <p>(Group and Council)</p>	Fraud risk/ Significant risk	No change in risk or focus	<p>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.</p>
<p>Valuation of land and held at open market value</p> <p>(Group and Council)</p>	Significant	No change in risk or focus	<p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has 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 in their property valuations.</p> <p>Our experience from the audit of property valuations for the year ended 31 March 2020, is that there is a greater likelihood of uncertainty in valuations of assets held at open market value and therefore we attach our significant risk to these assets.</p>

# 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
Valuation of land and buildings held at depreciated replacement cost (Group and Council)	Inherent risk	Decrease in risk or focus	The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We recognise that there are fewer assumptions used in the valuation of assets held at depreciated replacement cost, rather than open market value, and have revisited our risk assessment for these assets.
Pension liability valuation (Group and Council)	Inherent risk	No change in risk or focus	<p>The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.</p> <p>With effect from the 1 April 2020 Northumberland County Council Pension Fund (NCCPF) merged with Tyne and Wear Pension Fund (T&amp;WPF). Since 1 April 2020 the merged pension fund has been incorporated into and managed by T&amp;WPF, with the responsible administering authority being South Tyneside Council. Currently, the audit opinion for the 2019/20 NCCPF financial statements has yet to be issued. We have been informed that the auditor of NCCPF intend doing so in early July 2021. As a result of this delay, the auditor of T&amp;WPF will not be in a position to provide completed 2020/21 IAS19 assurances without caveats (referring to the outstanding 2019/20 NCCPF audit) until the auditor opinion on the 2019/20 financial statements has been issued.</p> <p>If there are delays beyond July 2021 in issuing the 2019/20 NCCPF audit opinion it will impact on the timings of IAS19 assurances and potentially on our ability to conclude the external audit of the Council.</p>
Value for Money risks (Group and Council)	Value for money risk	To be confirmed	For 2019/20 we identified significant value for money risks in relation to financial sustainability. The 2020 Code of Audit Practice issued by the National Audit Office has changed the focus of our Value for Money work and our detailed risk assessment procedures are underway. We will update the committee with details of any significant risks identified upon conclusion of these risk assessment procedures.

## Overview of our 2020/21 audit strategy

### Materiality

Planning  
materiality  
**£11.4M**

Group materiality has been set at £11.4 million, which represents 1.8% of the prior years gross expenditure on provision of services for the Group.

Performance  
materiality  
**£8.6M**

Performance materiality has been set at £8.6 million, which represents 75% of planning materiality.

Audit  
differences  
**£0.57M**

We will report all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.57 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2020/21 audit strategy

## Audit scope

This audit planning report covers the work that we plan to perform to provide you with our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended. We are required to design our work to provide sufficient assurance to enable us to report a commentary against specified reporting criteria on the arrangements that the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response. Our professional standards require us to determine where our assessment of risk and the work needed to meet our professional responsibilities changes. In those circumstances we seek additional fee for the additional work undertaken. You will be aware that market fees set under the original tendering process have not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting and auditing standards, such as ISA 540(UK) (revised) - Estimates and ISA 570(UK)(revised) going concern, as well as the new NAO Code requirements on the Value for Money conclusion. We have discussed with management in relation to the impact on the fee for the audit, recognising that there was an uplift to the base fee in 2019/20.



02

# Audit risks



## Audit risks

# Our response to significant risks

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

<p><b>Risk of fraud in revenue and expenditure recognition – inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements*</b></p>	<p><b>What is the risk?</b></p> <p>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.</p> <p>Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council’s usable reserves and provides a basis for the following year’s budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.</p> <p>Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, the potential improper capitalisation of revenue expenditure and the omission of expenditure from the financial statements. We will therefore target our audit work in these areas. We note from our initial discussions with management, that Covid-19 funding in excess of £100 million has been received during 2020/21. We will specifically consider this funding stream as part of our consideration of grants with terms and conditions.</p>	<p><b>What will we do?</b></p> <p>We plan to perform the following procedures to address the risk:</p> <ul style="list-style-type: none"> <li>▶ Test a sample of grant income to underlying evidence of award to check that revenue has been recognised in line with any terms and conditions attached to the funding</li> <li>▶ Request management to prepare an analysis of all Covid-19 funding received in year, along with the proposed accounting treatment for each funding stream. We will select a sample of Covid-19 funding, review evidence of award to check with terms and conditions and conclude on whether management’s treatment of the funding in the financial statements is appropriated</li> <li>▶ Test a sample of capital additions recognised in year to ensure that they are capital in nature and should not have instead been recognised as expenditure in the Comprehensive Income and Expenditure Statement</li> <li>▶ Review and discuss with management any accounting estimates relating to revenue or expenditure recognition, such as manual accruals, for evidence of bias</li> <li>▶ Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period</li> <li>▶ Consider the completeness of provisions in the financial statements based on our review of Council and committee meetings and discussions with management</li> </ul>
<p><b>Financial statement impact</b></p> <p>Misstatements that may occur in relation to the risk of fraud in revenue and expenditure recognition affect the income and expenditure accounts. These accounts had the following values in the 2019/20 financial statements:</p> <ul style="list-style-type: none"> <li>▶ Gross income: £636.2 million</li> <li>▶ Gross expenditure: £635.8 million</li> </ul>		

## Audit risks

### Our response to significant risks (continued)

#### Misstatements due to fraud or error\*

#### What is the risk?

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

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

#### What will we do?

- ▶ Identifying fraud risks during the planning stages
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ 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
- ▶ Evaluating the business rationale for significant unusual transactions

## Audit risks

# Our response to significant risks (continued)

### Valuation of land and buildings - Land and buildings held at Open Market Value

#### Financial statement impact

Value as at 31 March 2020: £51 million

#### What is the risk?

The value of land and buildings represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

In addition, The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has 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 in their property valuations.

Our experience from the audit of property valuations for the year ended 31 March 2020, is that there is a greater likelihood of uncertainty in valuations of assets held at open market value and therefore we attach our significant risk to these assets.

#### What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Consider the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre)
- ▶ Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme and investment properties have been valued on an annual basis as required by the CIPFA Code of Practice
- ▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated
- ▶ Consider changes to useful economic lives as a result of the most recent valuation
- ▶ Test accounting entries have been correctly processed in the financial statements
- ▶ Consideration of the disclosure in the Council's financial statements concerning any material uncertainty to ensure it provides sufficient detail to the user of the financial statements regarding the potential impact, together with any impact on the form of our opinion

## Audit risks

### Other areas of audit focus

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

#### What is the risk/area of focus?

##### Valuation of Land and Buildings – Land and buildings held at Depreciated Replacement Cost

The value of land and buildings held at Depreciated Replacement Cost represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Consider the work performed by the Council's valuer, Capita, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre)
- ▶ Consider the annual cycle of valuations to ensure that land and buildings assets have been valued as part of a five-year rolling programme as required by the CIPFA Code of Practice
- ▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated
- ▶ Consider changes to useful economic lives as a result of the most recent valuation
- ▶ Test accounting entries have been correctly processed in the financial statements

## Audit risks

### Other areas of audit focus (continued)

#### What is the risk/area of focus?

##### Pension liability valuation

The Local Authority Accounting Code of Practice and IAS 19 requires the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Tyne and Wear Pension Fund.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020, this totalled £465 million.

The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt. Accounting for this scheme involves significant estimation and judgement, and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What will we do?

We plan to perform the following procedures to address the risk:

- ▶ Liaise with the audit team of Tyne and Wear Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- ▶ Assess the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used, by relying on the work of PwC, the consulting actuaries commissioned by the PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to the pension disclosures.

With effect from the 1 April 2020 Northumberland County Council Pension Fund (NCCPF) merged with Tyne and Wear Pension Fund (T&WPF). Since 1 April 2020 the merged pension fund has been incorporated into and managed by T&WPF, with the responsible administering authority being South Tyneside Council. Currently, the audit opinion for the 2019/20 NCCPF financial statements has yet to be issued. We have been informed that the auditor of NCCPF intend doing so in early July 2021. As a result of this delay, the auditor of T&WPF will not be in a position to provide completed 2020/21 IAS 19 assurances without caveats (referring to the outstanding 2019/20 NCCPF audit) until the auditor opinion on the 2019/20 financial statements has been issued.

If there are delays beyond July 2021 in issuing the 2019/20 NCCPF audit opinion it will impact on the timings of IAS 19 assurances and potentially on our ability to conclude the external audit of the Council.

## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

### What will we do?

The revised standard requires:

- ▶ Auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias
- ▶ Greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements
- ▶ Improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements
- ▶ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern
- ▶ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern

The revised standard extends requirements to report to regulators where we have concerns about going concern.

## Audit risks

# Ongoing impact of Covid-19

### Other potential impacts of Covid-19

The ongoing disruption to daily life and the economy as a result of the pandemic will continue to have a pervasive impact upon the financial statements, which will need to reflect the impact of the pandemic upon the Council's financial position and performance. We have not identified further significant risks or areas of audit focus relating to Covid-19, other than those set out previously in this plan, but wish to highlight the wide range of ways in which Covid-19 has or could impact the financial statements.

This includes, but is not limited to:

- ▶ LGPS liabilities - due to volatile market conditions, we have noted from other audits that the share of year end asset values has decreased significantly. We would therefore expect a decrease in the year end asset values of the Council.
- ▶ Collection Fund receipts - there may be an impact on collection rates for council tax and non-domestic rates if residents and businesses are unable to work and earn income due to the lockdown and other restrictions implemented to respond to the pandemic. For the current year's statements, this may impact the level of provision made against outstanding balances at 31 March 2021.
- ▶ Valuation of investments - the valuation of investments may be made more difficult due to the market volatility brought about by the impact of Covid-19, this is particular prevalent in relation to the valuation of Newcastle International Airport.
- ▶ Expected Credit Losses - there may be an increase in the amounts written off as irrecoverable and the impairment of balances due to the Council at the reporting date due to the increased number of business and individuals unable to meet their financial obligations.
- ▶ Holiday and sickness pay - the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- ▶ Annual Governance Statement - the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on their ability to complete the planned programme of work for 2020/21.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on our ability to complete the audit as efficiently as normal. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will also be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

The changes to audit risks and audit approach will change the level of work we perform. This will impact the audit fee. We will agree changes to the audit fee with management and report back to the Audit Committee.



03

# Value for Money Risks



# Value for money

## Council responsibilities for value for money

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

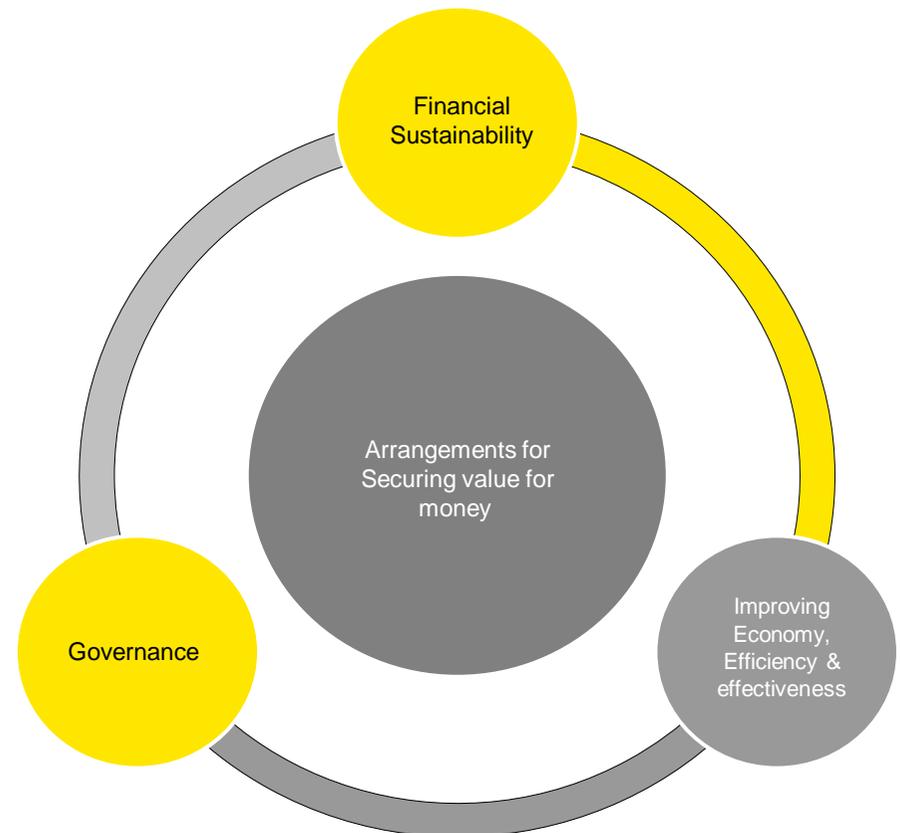
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its 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

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

The specified reporting criteria are:

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





## Value for money risks

### Planning and identifying VFM risks

The Code's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, 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 the 2015 Code guidance notes where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

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

- ▶ The Council's governance statement;
- ▶ Evidence that the Council's arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the financial statements;
- ▶ 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 guidance is clear that the assessment of what constitutes a significant weakness, and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements, is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

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

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Council;
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure or impact on budgets or cashflow forecasts;
- ▶ The impact of the weakness on the Council's reported performance;
- ▶ Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- ▶ Whether any legal judgements have been made including judicial review;
- ▶ Whether there has been any intervention by a regulator or 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 Council has had to respond to the issue.



## Value for money risks

### Responding to identified risks

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

We are required to report our planned procedures to the Audit Committee.

### Reporting on VFM

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

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

### Status of our 2020/21 VFM planning

We have yet to conclude on our detailed Value for Money planning procedures. We will update the Audit Committee on the outcome of our VFM planning procedures, our resulting risk assessment and our planned response to any identified risks of significant weaknesses in arrangements at a future Audit Committee meeting.



04

## Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2020/21 has been set at £11.4 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



### Component Planning Materiality levels

The materiality levels above relate to the Group financial statements. When auditing the Group, we are also required to set separate materiality levels for the completion of the Council and subsidiary audits. Our group scoping for the subsidiary entities is still underway and we will update the Audit Committee with component materiality levels on conclusion of this work.

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 £8.6 million which represents 75% of planning materiality. We have used a threshold of 75% as this is the third year we have audited the Council and we did not encounter any significant control weaknesses in the prior year.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and the collection fund greater than £0.57 million.

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

**Specific materiality** - We have set a materiality of nil for remuneration disclosures, 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 these.



05

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code. We are required to design our work to provide sufficient assurance to enable us to report a commentary against specified reporting criteria on the arrangements that the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

We issue an audit report that covers:

#### 1. Financial statement audit

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

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

*Procedures required by standards:*

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

*Procedures required by the Code:*

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

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

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The methodology and approach we need to take in this area have changed under the Code of Audit Practice with effect from 2020/21. Under the revised Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion on which we need to conclude upon. Instead, the Code now requires the auditor to design their work to provide sufficient assurance to enable them to report to the Council in a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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:

We will meet with Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

## Scoping the group audit

### Group scoping

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

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

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

### Scoping by Entity

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

Council	Full scope audit
North Tyneside Trading Co. Ltd. (Hold Co)	Review scope audit
North Tyneside Trading (Consulting) Co. Ltd	Dormant - Review scope audit
Aurora Properties (Rental) Ltd	Dormant - Review scope audit
North Tyneside Trading Development Co. Ltd (Dev Co)	Specific scope audit
Aurora Properties (Sale) Ltd	Specific scope audit

### Scope definitions

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

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

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



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## Audit team



## Audit team

The engagement team continues to be led by Stephen Reid (Partner), who will have responsibility for ensuring that our audit is high quality and delivers value to the Council. He will be supported by Claire Mellons (Senior Manager), who will be responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

## Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Capita (management's valuation specialist) EY Real Estate (as requires)
Pensions disclosure	AON Hewitt (management's actuarial specialist) 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 Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

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



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## Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. From time to time, matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning - Risk assessment and setting of scopes. Walkthrough of key systems and processes Interim audit testing	March	Audit Committee	Verbal Planning Update
	May	Audit Committee	Audit Planning Report
Year end audit testing	July	Audit Committee	
Year end audit testing continued	August		
Year end audit testing continued Audit Completion procedures	September	Audit Committee	Audit Results Report Audit opinions and completion certificates

As noted in Section 2 of this report, if there are delays beyond July 2021 in issuing the 2019/20 Northumberland County Council Pension Fund audit opinion it will impact on the timings of IAS 19 assurances and potentially on our ability to conclude the external audit of the Council. Should this, or any other delays arising from Covid-19 or other related matters occur, we will discuss with both management and the Audit Committee promptly and agree a revised timeline.



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Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance” require 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 December 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
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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

We 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 Stephen Reid, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

At the time of writing, there are no long outstanding fees, there are no non-audit fees, other than the certification of claims and returns which form part of our engagement contract, and there are no business relationships. Therefore no additional safeguards are required.

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

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

### Self review threats

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

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

### Management threats

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

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

## Other communications

### Other threats

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

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

### 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: [EY UK 2020 Transparency Report](#)



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## Appendices



## Appendix A

### Fees

A breakdown of our fees is shown in the table below.

	Planned fee 2020/21	Final fee 2019/20
	£	£
Base fee	125,250	125,250
Base fee - revisions (Revised auditing standards - ISA 540 and ISA 570)	22,750	n/a
Base fee - revision (New Code of Audit Practice / VFM requirements)	14,500	n/a
Total Fee - One off Covid-19 impact	9,300 Note (2)	17,600 (Note (1))
<b>Total Audit fee</b>	<b>171,800</b>	<b>142,850</b>
Total Fee - North Tyneside Trading Company and subsidiaries Note (3)	TBC	18,000
<b>Total additional group fees</b>	<b>TBC</b>	<b>27,000</b>
Non-audit work - Housing Benefit certification	12,800	12,800
Non audit-work - Other certification work	10,500	10,500
<b>Total other non-audit services</b>	<b>23,300</b>	<b>23,300</b>
<b>Total fees</b>	<b>TBC</b>	<b>193,150</b>

#### Notes

(1) In 2019/20 the variation to the base fee related to impact of the Covid-19 pandemic and the additional audit procedures that we were required to undertake to issue our audit opinion. These included general inefficiencies arising from the remote audit process and the additional work and consultation undertaken to address the impact of Covid-19 on the going concern status of the Council.

(2) We note that Covid-19 is likely to continue to have an impact on our 2021 audit, in particular there are significant new funding streams to assess given the level of Covid-19 related government grants received in year. We have attached our significant risk of fraud in revenue recognition to these funding streams this year and expect that there will be some complex judgements taken when determining the accounting treatment to be applied.

(3) We note that the activity of the subsidiary entities is increasing and more complex judgements are required in the production of the financial statements, such as the valuation of work in progress for the properties under construction. In addition, the new auditing standards for going concern and estimates will also apply to these entities. We will discuss the impact of these factors on the fees with subsidiary management and seek approval from the subsidiary Boards.

The fee presented is based on the following assumptions:

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

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

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

## 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
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Engagement Contract
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Engagement Contract
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:               <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul> </li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ 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 committee may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report Audit results report

## Additional audit information

### Other required procedures during the course of the audit

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

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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.

## Additional audit information (continued)

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

**About EY**

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

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