

Sheffield City Council

Annual Audit Letter for the year
ended 31 March 2019

December 2019

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Agenda Item 9

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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.psa.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 PSAA set 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 and Terms of Appointment. 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 Steve Varley, 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.



01

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Sheffield City Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ 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 Council'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 Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, 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.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 July 2019 and then again on 23 September 2019.
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 28 November 2019.

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

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Stephen Clark
Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities



Purpose and Responsibilities

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 Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 25 July 2019 Audit & Standards 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 Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 18 April 2019 and 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 2018/19 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council 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 Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, 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 extent of our review and the nature of our report are specified by the NAO.

Undertaking any other work as agreed with yourselves.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit



Financial Statement Audit

Key Issues

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

We audited the Council's 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 September 2019.

Our detailed findings were reported to the 25 July 2019 Audit Committee. An updated report was issued on 23 September 2019.

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error (Fraud risk)</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> <p>We have assessed journal amendments, accounting estimates and unusual transactions as the areas most open to manipulation. We consider the specific risks to be focussed predominantly on the same areas we have set out in the significant risk of expenditure recognition (being the Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions). We have reported on these separately and have not repeated that information here.</p>	<p>We have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be the NNDR appeals provision, the valuation of Property, Plant and Equipment and the valuation of pension liabilities.</p> <p>Due to the significance of PPE and pension valuations on the financial statements we have included them as a significant risk and higher inherent risk respectively in our audit strategy. Our work on the NNDR appeals provision has been captured within the Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions risk. These have been reported separately within this report and therefore that information has not been repeated here. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting.</p> <p>We confirm that we have performed the following procedures:</p> <ul style="list-style-type: none"> ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▶ We reviewed accounting estimates for evidence of management bias; and ▶ We evaluated the business rationale for any significant unusual transactions. <p>Based on the work performed:</p> <ul style="list-style-type: none"> ▶ 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 Council's normal course of business.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions (fraud risk)</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>The Council has overcome significant budget and savings challenges over the years and in 2018/19 the Council incurred an overspend £4.6m. As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the inappropriate capitalisation of expenditure that should have been charged to the general fund, the completeness (understatement) of liabilities (namely accruals), and the valuation of provisions.</p>	<p>In considering this risk we focussed on:</p> <ul style="list-style-type: none"> ▶ Management's judgement in capitalising expenditure as PPE. The Council has a number of large capital programmes and therefore judgement can be exercised in the allocation of costs between revenue expenditure and capital expenditure. ▶ The completeness of liabilities at the year end with a focus on any judgements management have made in relation to the expenditure which spans the financial year end. ▶ Management's judgement in the valuation of provisions, in particular, the NNDR appeals provision. <p>We have performed the following procedures:</p> <ul style="list-style-type: none"> ▶ Capital additions testing ▶ Cut off and unrecorded liabilities testing over liabilities ▶ Testing over the valuation of provisions ▶ Journal entry testing <p>Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure or the valuation of provisions. In relation to our work on unrecorded liabilities we identified one error of £1.8m in relation to capital expenditure that had not been accrued. This was reported as an uncorrected misstatement. Overall our audit work did not identify any material issues or unusual transactions to indicate any material misreporting of the Council's financial position.</p>

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Valuation of Investment Properties and Property, Plant and Equipment</p> <p>Property, Plant and Equipment (PPE) and investment properties (IP) represent significant balances in the Council's accounts. The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years with investment property valued annually. All valuations are carried out by the Council's own specialist valuer and must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. This risk relates to assets that are revalued, being 'Council dwellings', 'Other land and Buildings', 'Surplus assets', 'Assets held for sale' and 'Investment Properties'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ▶ Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans, income streams and yields). ▶ Engaged EY Real Estate to review a sample of properties to ensure the methodology applied is appropriate. ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. ▶ Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct. ▶ Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued. ▶ Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries have been correctly processed in the financial statements, including the treatment of impairments. <p>We identified that the house price index applied to council dwellings was applied for the period January 2018 to January 2019, as this was the latest information available on compiling the accounts. However, the March 2019 index was subsequently available and resulted in a material movement in the valuation of these assets. As the same methodology was used by the Council in prior years we evaluated the impact on the 2017/18 reported valuation (upwards movement of £40 million) and that for the opening valuation at 1 April 2017 (downward movement of £21 million). As the movement for 2017/18 is material the Council restated the opening position and corrected for the £66 million downward movement in 2018/19.</p> <p>We identified three instances where asset disposals had been accounted for as revaluation movements as opposed to gains/losses on the disposal of assets. This totalled £22.9 million and was corrected in the financial statements.</p> <p>We also identified two instances where updated valuations for certain assets were not reflected in the accounts. This related to the Major Sporting Facilities assets (difference of £3.8 million) and certain assets using BCIS indices (difference of £4.4 million). These were reported as uncorrected misstatements.</p> <p>No other significant issues were identified. Our testing confirmed that methodologies were appropriate and the valuations were supportable.</p>

Financial Statement Audit (cont'd)

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

Other area of audit focus (higher inherent risk)	Conclusion
<p>Accounting for valuation of the Local Government Pension Scheme</p> <p>The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by the South Yorkshire Pension Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £904.2 million (£776.6 million at 31 March 2018).</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We focused on the following areas:</p> <ul style="list-style-type: none"> ▶ The reasonableness of the underlying assumptions used by the Council's expert, Mercer, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP). ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate. ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Mercer. ▶ Liaising with the auditors of South Yorkshire Pension Council, Deloitte, to obtain assurances over the information supplied to the actuary in relation to the Council. ▶ Performing our own procedures to gain assurance over the reported scheme assets. <p>As a result of our work management processed an adjustment of £27 million to increase the net liability reported in the financial statements as a result of McCloud. In addition, a judgmental uncorrected misstatement for £3.1m was reported in relation to GMP.</p> <p>No other issues have been identified in completing our work.</p>
<p>PFI and service concession arrangements</p> <p>The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. The arrangements are supported by complex models to calculate the figures to be included in the financial statements each year.</p> <p>As this was EY's first year as appointed auditor to the Council, we were required to gain assurance that the schemes were being accounted for correctly and that the financial statements were supported by underlying documentation and financial models.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> ▶ Reviewed (with the support of EY specialists) the accounting judgements and models to assess the judgements and related accounting treatment in the financial statements. ▶ For each scheme we undertook testing of in-year inputs to the accounting models and agreed relevant entries in the financial statements to year-end outputs from each of the models. ▶ Reviewed associated disclosures within the financial statements to confirm they met Code requirements and were reflective of supporting documentation. <p>Our procedures identified several accounting differences across the PFI schemes. The most significant of these related to the Waste PFI where we identified that the deferred revenue element of the scheme was not separated out within the model or financial statements. We also identified differences across Schools 1, 2 and 3 and Bradfield schemes. The cumulative differences were reported as uncorrected misstatements.</p> <p>No other issues were identified.</p>

Financial Statement Audit (cont'd)

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

Other area of audit focus (higher inherent risk)	Conclusion
<p>New accounting standards - IFRS 9 and IFRS 15</p> <p>IFRS 9 - financial instruments: This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and has changed how financial assets are classified and measured; how the impairment of financial assets are calculated; and the disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.</p> <p>IFRS 15 - Revenue contracts with customers: This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">▶ Assessed the Council's implementation arrangements and impact assessment papers setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19.▶ Considered the classification and valuation of financial instrument assets.▶ Reviewed the new expected credit loss model impairment calculations for assets.▶ Considered the application of IFRS 15 on the Council's revenue streams, and where relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation. <p>We had no issues to report as a result of completing our planned procedures.</p>

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 determined planning materiality to be £24.5m, which is 1.8% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit & Standards Committee that we would report to the Committee all audit differences in excess of £1.2m.

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:

Members allowances, officers remuneration and related parties: As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. Errors in the note that affect the rounding or recording of individuals within bandings would be considered material.

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



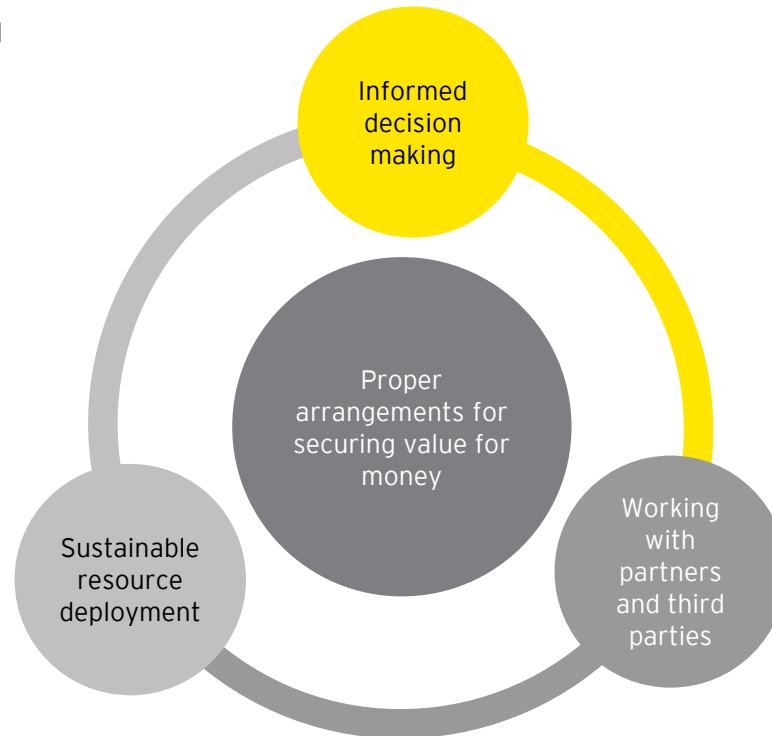
04 Value for Money

Value for Money

We are required to consider whether the Council 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.



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We identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 30 September 2019.

Significant Risk	Conclusion
<p>Securing Financial Resilience</p> <p>Arrangements impacted: Deploy resources in a sustainable manner</p> <p>The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services. The Council has responded well to challenges and delivered significant and continued levels of savings (£460m since 2010) whilst maintaining services for the local population.</p> <p>The financial position reported to Cabinet to month 11, identified that the Council was forecasting a £6.5m overspend for 2018/19 which was highlighted as potentially reducing slightly by the year-end. This included a £15m overspend within Adult and Children's social care budgets, after additional investment of £15m in these areas for 2018-19. The approved 2019-20 budget identified a balanced position for the year and included an additional £20m investment in social care services. The balanced position did however include a planned £11m use of Council reserves.</p> <p>The reported financial performance highlighted the importance of increased focus on delivery of savings in overspending areas, service transformation and ongoing investment in key areas. Whilst the Council has a good track record of delivering savings and had a reasonable level of reserves, the trajectory of overspending is not sustainable in the medium to long term and services will need to be transformed to tackle pressures and meet savings requirements in supporting the Council 4 year plan to bring the budget back to balance.</p>	<p>The scale of savings and service transformation to be delivered by the Council over the medium term are significant.</p> <p>The Council has a level of general fund reserves (£8.1 million at 31 March 2019) which represents 2.0% of the 2018/19 net budget requirement of £401.9m. This is a decrease of 2.7% compared to the prior year and is below the minimum level recommended by the Executive Director of Resources, mainly as a result of a £4.6m overspend in 2018/19. The Council plan to return the reserve to the minimum recommended level of 3% of net revenue expenditure during 2019/20.</p> <p>The Council also has in place substantial levels of usable earmarked reserves (£226.8 million at 31 March 2019), of which £24m relates to Schools balances. These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Council's prudent approach to financial management. We note that these include service areas reserves of £14m and children and adult social care reserves of £19m. It is forecast that £8.4m of this reserve will be required to fund pressures in 2019-20 and deliver a balanced budget.</p> <p>The final budget for 2019/20 was presented to Council and approved on 6 March 2019. This sets out a balanced position after the use of £11m of reserves. The Council has invested a further £20m in social care services following overspends again in 18/19 to transform services in this area. The use of reserves is dependent on achievement of the savings target for the year of £30m which is supported by plans by portfolio which are published on the Council's website. Over the next 4 years the planned use of reserves is £35m of reserves, which is dependent on savings of £70m and delivery of savings through Health Joint Commissioning.</p> <p>The budget relies upon a number of potentially non-recurrent items (e.g. use of reserves, contribution from the Collection Fund, Social Care Funding) and the Council have developed a 4 year budget tracker to model the impact of budget, best case and current assessment scenarios. As of June 2019 the modelled reserve usage is as follows:</p> <ul style="list-style-type: none"> ▶ A best case of £6.1m ▶ The budget case of £34.7m; ▶ A current assessment of £71.8m - which would be predominantly driven by £10.3m slippage in savings in 2020/21, the impact for three years being £30.9m. <p>Whilst the Council faces continued financial pressures, our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivering savings plans has not identified any significant matters that we wish to report to you.</p>



05

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 Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council'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 Council 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 Council 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.

Objections Received

We did not receive any objections to the 2018/19 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 & Standards Committee on 25 July 2019 and then provided an updated report on 23 September 2019. 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.



Other Reporting Issues (cont'd)

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.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Whilst it is not considered to be a significant deficiency we have experienced some difficulties in obtaining evidence in relation to school balances included within the financial statements. This has meant that in a number of instances we have been required to perform alternative procedures to gain assurances over the material accuracy of balances included in the financial statements. This has extended to the receipt of bank confirmations where c20 confirmations remain outstanding (out of c90 school bank accounts).

We have discussed the above with management and have agreed to revisit the audit of school balances early in the 2019/20 audit process to ensure there is an understanding of key audit requirements to facilitate the receipt of information from schools.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



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08 Audit Fees

Audit Fees

Our fee for 2018/19 is set out below. Additional fee elements are still subject to agreement with management and the PSAA.

	Final fee 2018/19	Scale fee 2018/19
	£	£
Total Fee - Code work	143,988	143,988
Additional fees:		
- Pension asset testing	17,725	-
- GMP and McCloud	3,479	-
- Property, Plant and Equipment issues	11,210	-
- Schools balances	2,498	-
- Financial statement amendments and prior year adjustments	1,460	
Total audit	180,360	143,988
Other non-audit services not covered above (Housing Benefits)	26,200 - 27,400	N/A
Teachers' Pensions	9,500	N/A
Housing capital receipts pooling	TBC	N/A
Total other non-audit services	35,700 - TBC	N/A
Total fees	216,060 - TBC	143,988

Due to the increase in audit procedures required to address the additional risks and audit findings we will need to increase our audit fee. This will result in an revised audit fee as set out above. We will discuss and agree this with the S151 officer before gaining approval from Public Sector Audit Appointments Ltd. Once agreed we will provide you with an update in subsequent reporting documents.

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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