Adur District Council

Audit planning report update

Year ended 31 March 2020

August 2020

EY

Building a better working world

11 August 2020

Adur District Council
c/o Worthing Town Hall
Chapel Road
Worthing
West Sussex
BN11 1HA

Dear Joint Governance Committee Members

Audit Planning Report update – Year ended 31 March 2020

This report seeks to provide the Joint Governance Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report included in the papers for the 24 March 2020 Joint Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the 2019/20 financial statements. Following the coronavirus outbreak (Covid-19) in March 2020, we have re-assessed our audit scope and strategy. We provide here an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

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

We welcome any comments from you when this report is circulated and the opportunity to discuss this report with you on 22 September as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

01 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

What is the risk?

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

We identify and respond to this fraud risk on every audit engagement.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

Our response to significant risks

We have set out the significant risks 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.

Inappropriate capitalisation of revenue expenditure

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

What is the risk?

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.

From our risk assessment, we have assessed that the risk manifests itself through the inappropriately capitalisation of revenue expenditure to improve the financial position of the general fund, as there is an incentive to reduce expenditure which is funded from Council Tax.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Our response to significant risks

We have set out the significant risks 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.

Introduction of new financial management system

What is the risk?

The Council introduced its new Technology One financial management system with effect from November 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.

To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data to its new general ledger.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Financial statement impact

This impacts on all of the figures within the financial statements.

Our response to significant risks (continued)

We have set out the significant risks 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.

Valuation of Investment Properties

Financial statement impact

The fair value of investment properties in the draft accounts at 31 March 2020 is £78.6 million.

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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 the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to these valuations.

As a result of the Covid-19 impact on fair value valuations, we have escalated this risk from an area of audit focus to a significant risk.

Our procedures to address this risk are set out on the following page.

Our response to significant risks (continued)

We will:

- Consider the work performed by the Council's valuer, 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 and challenge the key assumptions used by the valuer;
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensure that appropriate disclosure has been made in the financial statements concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and
- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties and assets valued using EUV, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.

Our response to significant risks (continued)

We have set out the significant risks 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.

Pension Liability Valuation

Financial statement impact

The pension fund liability in the draft accounts at 31 March 2020 is £14.4 million.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund liability 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 £34 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Council's actuary to be basing their assumptions taking into account the Council's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

Update – Covid-19 related constraints on IAS 19 valuations

Due to the timing of the pandemic and the UK restrictions it is highly likely that the value of plan assets within the pension fund will be significantly impacted – in particular level 3 assets where there is no active market. West Sussex Pension Fund has £488m worth of Level 3 assets as at 31st March 19. Although Adur DC only represents 2.56% of the fund this is still material at £12.5m at 31 March 2019. Due to the timing of the pandemic the IAS 19 fair value of assets will be based on an estimate. Considering the size and nature of these assets it is likely that actual values will be different to the estimate and even small changes can have a material impact on the Council's accounts.

As a result of the Covid-19 impact on fair value valuations, we have escalated this risk from an area of audit focus to a significant risk.
Our procedures to address this risk remain as set out in our Audit Plan.

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 area of focus?	What will we do?
Valuation of Land and Buildings The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The value of operational assets in the draft accounts at 31 March 2020 is £37.7 million and HRA dwellings is £190.6 million. **Update – Covid-19 related constraints on property valuation** 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 the valuations at year-end. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions.	We will: ▸ Consider the work performed by the Council's valuer, 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 and challenge the key assumptions used by the valuer; ▸ Consider 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; ▸ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements. **Additional Covid-19 procedures in response to our risk include:** ▸ Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions; ▸ Ensure that appropriate disclosure has been made in the accounts concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and ▸ If required, obtain input from EY Real Estates, our internal specialists on asset valuations for PPE.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
Going Concern Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial, leisure services and other areas. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom,* still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation, and particularly with a view whether there are any material uncertainties for disclosure. We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist. These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ▸ The current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; and ▸ Sensitivities and stress testing.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
New accounting standard – IFRS 16 In our Audit Planning Report issued in February we identified an inherent risk in relation to the implementation of the new accounting standard IFRS 16 (Leases) . Due to the impact Covid-19, the adoption of this standard was deferred to 2021/22.	▸ Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an area of audit focus.

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

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

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
    - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing as far as possible; and
    - Agree IPE to scanned documents or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports.

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 Joint Governance Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis and percentages for planning materiality, performance materiality and the threshold for reporting audit differences set out in our Audit Planning Report remain appropriate.

We have updated the values based on the draft 2019/20 financial statements. Our planning materiality at year-end, based on 2% of gross revenue expenditure, is £1.34 million. This results in an updated performance materiality, at 75% of overall materiality, of £1.00 million, and an updated threshold for reporting misstatements of £66,000.

02 Value for Money Risks

Value for Money risks

The value for money risk identified in our audit plan is shown below. We are aware that Covid-19 has impacted on the Council's financial planning for 2020/21 and beyond, and we will be mindful of this when undertaking the work set out below. However, our focus will be on the Council's arrangements 01/04/2019 – 31/03/2020, as required by the NAO's value for money guidance.

What is the risk?	What will we do?
The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The Council continues to face significant financial challenges over the coming years. We concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans were in place to deliver the 2019/20 budget. In the 2019/20 budget, the Council originally identified a budget gap of £10.3 million over the next 4 years to 2023/24. It has identified £4.3 million of savings to mitigate this gap, however, this leaves £6 million of savings yet to be identified. At 31 March 2019, the Council had £18.1 million of usable revenue reserves. This included the General Fund reserve of £519,000 which is just above the minimum level set by the Section 151 Officer. These reserves would not be sufficient to cover any shortfall in savings were they not to be achieved and leaves little resilience to meet unexpected issues. .	Our approach will focus on: ▸ Using PSAA's value for money profile tool to assess Council spending against similar councils; ▸ Reviewing and assessing the updated assumptions within the Council's 2020/21 budget and medium term financial plan; ▸ Reviewing the outturn position against budget for 2019/20 and the Council's financial position at 31 March 2020; and ▸ Reviewing the Council's processes for identifying and monitoring the savings. We will also: ▸ review the Council's strategy for purchasing commercial property; ▸ consider the financial and governance procedures in place regarding this strategy; and ▸ consider whether the Council has obtained appropriate professional advice regarding purchases made within the strategy.

Worthing Borough Council

Audit planning report update

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Dear Joint Governance Committee Members

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

We welcome any comments from you when this report is circulated and the opportunity to discuss this report with you on 22 September as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

01 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

What is the risk?

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

We identify and respond to this fraud risk on every audit engagement.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Our response to significant risks

We have set out the significant risks 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.

Inappropriate capitalisation of revenue expenditure

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

What is the risk?

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.

From our risk assessment, we have assessed that the risk manifests itself through the inappropriately capitalisation of revenue expenditure to improve the financial position of the general fund, as there is an incentive to reduce expenditure which is funded from Council Tax.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Our response to significant risks

We have set out the significant risks 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.

Introduction of new financial management system

What is the risk?

The Council introduced its new Technology One financial management system with effect from November 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.

To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data to its new general ledger.

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Financial statement impact

This impacts on all of the figures within the financial statements.

Our response to significant risks (continued)

We have set out the significant risks 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.

Valuation of Investment Properties

Financial statement impact

The fair value of investment properties in the draft accounts at 31 March 2020 is £74.5 million.

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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 the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to these valuations.

As a result of the Covid-19 impact on fair value valuations, we have escalated this risk from an area of audit focus to a significant risk.

Our procedures to address this risk are set out on the following page.

Our response to significant risks (continued)

We will:

- Consider the work performed by the Council's valuer, 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 and challenge the key assumptions used by the valuer;
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensure that appropriate disclosure has been made in the financial statements concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and
- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties and assets valued using EUV, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.

Our response to significant risks (continued)

We have set out the significant risks 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.

Pension Liability Valuation

Financial statement impact

The pension fund liability in the draft accounts at 31 March 2020 is £13.5 million.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund liability 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 £39.4 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Council's actuary to be basing their assumptions taking into account the Council's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

Update – Covid-19 related constraints on IAS 19 valuations

Due to the timing of the pandemic and the UK restrictions it is highly likely that the value of plan assets within the pension fund will be significantly impacted – in particular level 3 assets where there is no active market. West Sussex Pension Fund has £488m worth of Level 3 assets as at 31st March 19. Although Adur DC only represents 2.93% of the fund this is still material at £14.3m at 31 March 2019. Due to the timing of the pandemic the IAS 19 fair value of assets will be based on an estimate. Considering the size and nature of these assets it is likely that actual values will be different to the estimate and even small changes can have a material impact on the Council's accounts.

As a result of the Covid-19 impact on fair value valuations, we have escalated this risk from an area of audit focus to a significant risk.

Our procedures to address this risk remain as set out in our Audit Plan.

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 area of focus?	What will we do?
Valuation of Land and Buildings The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The value of operational assets in the draft accounts at 31 March 2020 is £109.5 million. **Update – Covid-19 related constraints on property valuation** 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 the valuations at year-end. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions.	We will: ▸ Consider the work performed by the Council's valuer, 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 and challenge the key assumptions used by the valuer; ▸ Consider 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; ▸ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements. **Additional Covid-19 procedures in response to our risk include:** ▸ Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions; ▸ Ensure that appropriate disclosure has been made in the accounts concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and ▸ If required, obtain input from EY Real Estates, our internal specialists on asset valuations for PPE.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
Going Concern Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial, leisure services and other areas. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom,* still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation, and particularly with a view whether there are any material uncertainties for disclosure. We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist. These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of: ‣ The current and developing environment; ‣ Liquidity (operational and funding); ‣ Mitigating factors; ‣ Management information and forecasting; and ‣ Sensitivities and stress testing.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
New accounting standard – IFRS 16 In our Audit Planning Report issued in February we identified an inherent risk in relation to the implementation of the new accounting standard IFRS 16 (Leases) . Due to the impact Covid-19, the adoption of this standard was deferred to 2021/22.	▸ Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an area of audit focus.

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

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

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
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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 Joint Governance Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis and percentages for planning materiality, performance materiality and the threshold for reporting audit differences set out in our Audit Planning Report remain appropriate.

We have updated the values based on the draft 2019/20 financial statements. Our planning materiality at year-end, based on 2% of gross revenue expenditure, is £1.45 million. This results in an updated performance materiality, at 75% of overall materiality, of £1.08 million, and an updated threshold for reporting misstatements of £72,000.

02 Value for Money Risks

Value for Money risks

The value for money risk identified in our audit plan is shown below. We are aware that Covid-19 has impacted on the Council's financial planning for 2020/21 and beyond, and we will be mindful of this when undertaking the work set out below. However, our focus will be on the Council's arrangements 01/04/2019 – 31/03/2020, as required by the NAO's value for money guidance.

What is the risk?	What will we do?
The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The Council continues to face significant financial challenges over the coming years. We concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans were in place to deliver the 2019/20 budget. In the 2019/20 budget, the Council originally identified a budget gap of £14.9 million over the next 4 years to 2023/24. It has identified £7.6 million of savings to mitigate this gap, however, the leaves £6 million of savings yet to be identified. At 31 March 2019, the Council had £18.1 million of usable revenue reserves. This included the General Fund reserve of £869,000 which is just above the minimum level set by the Section 151 Officer. These reserves would not be sufficient to cover any shortfall in savings were they not to be achieved and leaves little resilience to meet unexpected issues. .	Our approach will focus on: ▸ Using PSAA's value for money profile tool to assess Council spending against similar councils; ▸ Reviewing and assessing the updated assumptions within the Council's 2020/21 budget and medium term financial plan; ▸ Reviewing the outturn position against budget for 2019/20 and the Council's financial position at 31 March 2020; and ▸ Reviewing the Council's processes for identifying and monitoring the savings. We will also: ▸ review the Council's strategy for purchasing commercial property; ▸ consider the financial and governance procedures in place regarding this strategy; and ▸ consider whether the Council has obtained appropriate professional advice regarding purchases made within the strategy.