

A photograph of a meeting table with several papers and hands pointing at documents. The background is a bright, clean office environment. A yellow banner is overlaid on the left side of the image.

Northamptonshire County Council Pension Fund

Audit planning report

Year ended 31 March 2021

2 July 2021



Private and Confidential

Audit & Governance Committee
Northamptonshire County Council Pension Fund ("the Pension Fund")
One Angel Square
Angel Street
Northampton
NN1 1ED

2 July 2021

Dear Audit & Governance Committee Members,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. We will provide an update to the Audit Plan if there are any changes to our risk assessment or planned audit approach as the audit progresses.

This report is intended solely for the information and use of the Committee, the Local Pension Board 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 share this report with you as well as understand whether there are other matters which you consider may influence our audit. We will formally present it to you in the Committee meeting on 28 July 2021.

Yours faithfully

Debbie Hanson

For and on behalf of Ernst & Young LLP

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

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

This report is made solely to the Committee and management of the Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee, and management of the Pension Fund 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 Committee and management of the Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error - Incorrect posting of the valuations notified for investment assets	Fraud 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>We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the Incorrect posting of the valuations notified for investment assets as a specific area where misstatements due to fraud may arise.</p>
Valuation of complex investments	Significant risk	No change in risk or focus	<p>We have identified the valuation of complex investment assets i.e. Level 3 investments, as a specific area where misstatements may arise and therefore a significant risk. The Fund holds £400 million of Level 3 investments, representing 13.3% of the total portfolio.</p> <p>Judgements are taken by the Investment Managers to value those investments where prices are not publicly available. The material nature of investments means that changes in assumptions can result in a material valuation error.</p> <p>Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations can have a material impact on the financial statements.</p> <p>Covid has also created an uncertain economic environment from March 2020. As a result, the valuation of these complex investment assets as of 31 March 2021 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.</p>

Overview of our 2020/21 audit strategy

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Going concern assessment and disclosures	Higher inherent risk	No change in risk or focus	<p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern.</p> <p>However, the current uncertain economic environment as a result of Covid increases the need for the Pension Fund to undertake a detailed going concern assessment to support this assertion.</p> <p>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.</p> <p>The auditor's report in respect of going concern covers a 12-month period from the date of the report, hence the Pension Fund's assessment will also need to cover this period. Therefore, the Pension Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to potentially beyond the 2021/22 financial year to cover at least 12 months from the date of the report.</p>

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

£30.77m

Consistent with our prior year's approach, we calculate our planning materiality as 1% of net assets (based on the current year draft accounts) of the Pension Fund.

Performance
materiality

£23.08m

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit
differences

£1.54m

We will report all uncorrected misstatements relating to the primary statements (fund account and net assets statement) greater than £1.54 million. We will communicate other misstatements identified to the extent that they merit the attention of the Committee.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Northamptonshire County Council Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Northamptonshire County Council for the year ended 31 March 2021.

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 Pension Fund.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years. Therefore to the extent any of these or any other risks are relevant in the context of Northamptonshire County Council Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.

Overview of our 2020/21 audit strategy

Timeline

For 2020/21, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for audited local authority accounts from 31 July to 30 September. In Section 06 we therefore include a provisional timeline for the audit.

Whilst there is an ongoing impact of later deadlines and completion of audits from 2019/20, we have already started our detailed planning and final audit procedures for the 2020/21 audit. We set out in this Plan our initial considerations of the risks for the audit (refer Section 02), where we have slightly updated our risks assessment for the audit for 2020/21 as some of the risks we identified for 2019/20 are not applicable to the 2020/21 audit. We will continue to update our assessment of risks as our audit progresses and take into account any additional information of which we become aware.

Fees

We include further details on our proposed fees for 2020/21 in Section 08.



02 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 -
Incorrect posting of the valuations notified for investment assets

What is the risk?

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

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

We have considered the key areas where management has the material opportunity and incentive to override controls. We have identified the Incorrect posting of the valuations notified for investment assets as a specific area where misstatements due to fraud or error may arise.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiring 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.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

We will undertake additional procedures to address the specific risks we have identified relating to incorrect posting of journals relating to investment income and assets, which consist of:

- Reviewing reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences.
- Agreeing the reconciliation of holdings included in the Net Assets Statement to the source reports.

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.

Significant risk - Valuation of complex investments	What is the risk?	What will we do?
<p>Financial statement impact</p> <p>The proportion of the fund comprising Level 3 investments was 13.3% in 2020/21. As these investments are more complex to value and small movement in assumptions can have a material impact on the financial statements, we have identified Level 3 investments as a significant risk. Our audit approach will take into account the different types of securities designated as Level 3.</p> <p>Total level 3 investments of the Fund as at 31 March 2021:</p> <p>£400.25 million</p>	<p>Valuation of complex investments</p> <p>The Fund's Level 3 investments portfolio includes private equity (£285.78 million), and pooled property investments (£114.47 million).</p> <p>Judgements are taken by the Investment Managers to value those investments where prices are not publically available. The material nature of Investments means that changes in assumptions can result in a material valuation error.</p> <p>Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations can have a material impact on the financial statements.</p> <p>Covid has also created an uncertain economic environment immediately prior to the Pension Fund's reporting date of 31 March 2021. As a result, the valuation of these complex investment assets as of 31 March 2021 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review and disaggregate the securities making up the Level 3 investment portfolio; Consider the basis of valuation for these investments and assess the appropriateness of the valuation methods used; Obtain and review the latest audited accounts for the relevant fund managers and ensure there are no matters arising that highlight weaknesses in the funds valuation; Obtain ISAE3402 (or equivalent) controls reports and review for any issues or qualifications impacting the valuation controls over the funds; Perform procedures to develop our own estimate of the 31 March valuations using evidence such as recent trading, market movements, Indices and benchmarking date, and assess the reasonableness of valuations against our own expectations; and Review investment valuation disclosures to verify that significant judgements surrounding the valuation of level 3 investments have been appropriately made in the Pension Fund's financial statements.

Audit risks

Other areas of audit focus

What is the risk/area of focus?

Going concern disclosures

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern.

However, the current uncertain economic environment as a result of the ongoing impact of Covid increases the need for the Pension Fund to undertake a detailed going concern assessment to support this assertion.

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 Pension Fund's assessment will also need to cover this period. Therefore, the Pension Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to potentially beyond the 2021/22 financial year to cover at least 12 months from the date of the report. .

What will we do?

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

We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions, and key assumptions (e.g. assumed duration of the impact of Covid).

Our audit procedures to review these will include consideration of:

- ▶ Current and developing environment;
- ▶ Liquidity (operational and funding);
- ▶ Mitigating factors;
- ▶ Management information and forecasting;
- ▶ Sensitivities and stress testing; and
- ▶ Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.



03

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £30.77 million. This represents 1% of the Pension Fund's net assets as per the draft accounts for 2020/21. Our materiality level will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C.



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 £23.08 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of performance materiality.

Audit difference threshold - we propose that misstatements identified below this threshold (£1.54 million) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

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



04

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 Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls;
- ▶ Substantive tests of detail of transactions and amounts; and
- ▶ Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work

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, the Committee and the Pensions Committee.

Internal audit:

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



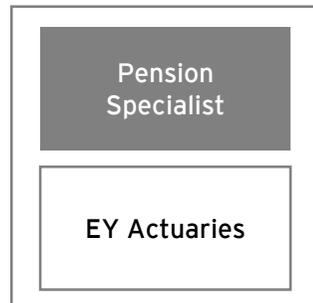
05

Audit team



Audit team

Audit team structure:



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
Pensions Liability	Hymans Robertson (Northamptonshire County Council Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Advisory Team
Investment Valuation	The Pension Fund's custodian and fund managers EY Valuation Specialists (if required)

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 Pension Fund'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.



06

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 Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

We are not able to fully conclude our audit of the Pension Fund and issue our audit report until the audit of the Northamptonshire County Council accounts has been concluded. As the audit of the 2019/20 accounts of Northamptonshire County Council has not yet been concluded we are not currently able to confirm the date for conclusion of the 2020/21 audit.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	June		
Walkthrough of key systems and processes	June / July		Audit Planning Report
Year end audit	June - September		Audit Results Report
Audit Completion procedures	TBC		



07

Independence





Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 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"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ 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 ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of 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 ▶ An opportunity to discuss auditor independence issues.

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

We 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 Helen Thompson, 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 Pension Fund. 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.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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

There are no self interest threats that we need to bring to your attention 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 Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



08

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

As noted in slide 8, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit the basis on which the scale fee was set. We previously shared with the Council our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £18,699 to £55,000. We will submit our fee estimate to PSAA for them to determine. This updated scale fee is not currently reflected in the table below.

	Planned fee 2020/21	Final fee 2019/20	Scale fee 2019/20
	£'s	£'s	£'s
Scale fee - Audit of the Pension Fund (see above comments)	18,699	18,699	18,699
Additional fee (Note 1)	TBC	16,700	NA
IAS 19 assurances (Note 2)	12,000	12,000	NA
Triennial review procedures (Note 3)	0	10,471	NA
Total fees for Code work	TBC	TBC	18,699

All fees exclude VAT

Note 1 - We are still finalising the 2019/20 audit and, as communicated in our Audit Results Report, we are proposing a variation in relation to the additional work in relation to the impact of Covid-19 on a number of areas of our work including in particular going concern and PBSE disclosures and associated consultation requirements. We will update the Audit Committee on the final fee once we have completed the audit. This proposed additional fee will also need to be approved by PSAA.

For 2020/21, the scale fee will be continue to be impacted by a range of factors as outlined in this Plan, including the ongoing impact of Covid, which will result in additional work to obtain the appropriate levels of evidence to support our opinion. We are not currently able to estimate the fee in relation to this additional work. We will provide further detail and the proposed fee in our Audit Results Report. Any scale fee variation will be discussed with the Pension Fund and will be submitted to PSAA for approval. PSAA will determine the final fee.

Note 2 - Additional fee of £12,000 is proposed in 2019/20 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

Note 3 - For 2019/20 we were required to undertake additional IAS19 procedures on the data submitted to the actuary to inform their triennial revaluation of the fund.

The agreed 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 Pension Fund; and
- ▶ The Pension Fund 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 Pension Fund in advance.

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

Appendix B

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Plan - July 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - September 2021

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - September 2021
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - September 2021
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - September 2021
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - September 2021

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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan - July 2021</p> <p>Audit Results Report - September 2021</p>	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report - September 2021</p>	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Audit Results Report - September 2021</p>	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	<p>Audit Results Report - September 2021</p>	

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September 2021	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report - September 2021	
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - September 2021	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - September 2021 Audit Results Report - September 2021	

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 Pension Fund'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 Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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