Daventry District Council

Audit Planning Report

Year ended 31 March 2021

Presenting to West Northamptonshire Audit and Governance Committee meeting on the 28 July 2021

Building a better working world

28 July 2021

Audit and Governance Committee Members
Daventry District Council – West Northamptonshire Council
Lodge Road
Daventry
NN11 4FP

Dear Audit and Governance Committee Members

2020-21 Audit Planning report

At it's meeting on the 16th June 2021, the Audit and Governance Committee received an outline plan for our external audit of the legacy financial statements for Daventry District Council and South Northamptonshire Council for the financial year ended 31st March 2021. At that stage, our routine planning and risk assessment audit procedures had not been substantially completed. Now that we have been able to make substantive progress since the 16th June 2021, we are pleased to attach our Audit Plan for Daventry District Council which sets out how we intend to carry out our responsibilities as auditor. A separate plan is being presented to the 28th July 2021 Audit and Governance Committee for our audit of South Northamptonshire Council.

The purpose of our plan is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations. This plan summarises our current assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you in July as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

Continued… 28 July 2021

Dear Audit and Governance Committee Members

Current position on our audit risk assessment since the 16th June 2021 meeting

At the date of preparing this report, we have substantially completed our audit planning procedures and risk assessment for the audit of the Council's financial statements. Our risk assessment and audit procedures associated with the Council's value for money arrangements remains ongoing. However, we expect that our focus will be updating our understanding on the Council's arrangements to secure its financial resilience up to the vesting day and merger with West Northamptonshire Council as well as how the Council took informed decisions on significant capital programmes and projects that were underway during the 2020-2021 financial year. We will report to the Audit and Governance Committee if our planning and risk assessment work identifies any risks of significant weaknesses in the Council's value for money arrangements, and thereafter if we believe these will have materialised, including any associated recommendations.

We have received the Council's draft financial statements on the 16th July 2021 which currently exclude the group accounts and the collection fund balances, which also impact on final accounting transactions and disclosures for accruals (debtors and creditors). The Council are in the process of responding to our data analytics, working paper and information requests and as a result we are agreeing a realistic and achievable timeframe with the Council's finance team to receive this in order that we can continue to effectively and efficiently schedule and resource our audit to safeguard our quality and professional standards.

At this point, we still expect to report the results of our audit procedures on each of the Council's 2020-2021 financial statements and value for money arrangements to the Committee meeting on 29th September 2021. We will notify the Audit and Governance Committee at the earliest opportunity though if we believe this will not be achievable and in the event we need to agree any revised timetables for the conclusion of the audit. The Audit and Governance Committee received at its meeting on 16th June 2021 our national letter to public sector audited bodies we audit under our contract with Public Sector Audit Appointments Limited (PSAA). This set out the principles we are adopting to the scheduling of our 2020-2021 external audits.

Based on our updated audit planning and risk assessment procedures, the key changes to the audit risks for Daventry District Council since the outline plan presented at the 16th June 2021 meeting are:

- We have determined that the Council's recognition of income from its commercial activities is not a significant risk of fraud in revenue recognition. We will continue to revisit this area during the course of our audit and update the Audit and Governance Committee should our risk assessment change.
- We have added a general risk associated with the merger, and the ongoing capacity of the West Northamptonshire Council finance team to prepare the closure of accounts for legacy bodies and to support the external audit process. This is a risk which is consistent with South Northamptonshire Council 20-21 audit plan. We have not associated this risk specifically to any item of account but does inform our ongoing assessment of the Council's internal control environment for financial reporting. Further details are provided at Page 19.

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
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 (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit and Governance Committee and management of Daventry District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Daventry District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Daventry District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance 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 (Risk of management override)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	As noted above, under ISA 240, management is in a unique position to perpetrate fraud through the override of controls. We have considered the main areas where management may have the incentive and opportunity to do this. We have identified the inappropriate capitalisation of revenue expenditure on property, plant and equipment as an area of risk, given the extent of the Councils capital programme.
Valuation of Property, Plant and Equipment and Investment Properties	Significant risk	No change in risk or focus	Property valuations (including Property, plant and equipment (PPE) and Investment Properties) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures, with specialist support as appropriate on the use of experts and assumptions underlying fair value estimates. The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews. The current economic uncertainty caused by Covid-19 has significantly increased the risk that property asset valuations (based on market conditions) may be materially misstated.

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Inherent risk	Decrease in risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body given its membership of the Local Government Pension Scheme administered by Northamptonshire Pension Fund. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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. For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues arising from the Goodwin and McCloud cases.
Going Concern Disclosures	Inherent risk	No change in risk or focus	We will review the appropriateness of the Going Concern disclosures in accordance with the revisions to auditing standard (ISA 570. Recognising that we are now reporting on demised entities' financial statements for the financial year ended 31st March 2021, we will review the appropriateness of the going concern disclosures for West Northamptonshire Council for at least 12 months from the date each financial statements is authorised for issue. This will take into account: • Management's assessment on the continuity of service provision. • Projected viability ("available to use" reserves) and cashflow forecasts for the going concern period • Our stress testing of management's assessments and key assumptions. • Outcomes from our routine consultation procedures with our professional practice team.

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Recognition of grant income associated with Covid-19	Area of focus	New area of focus For 2020/21	The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be manipulated to improve the reported position. We will consider the elements of grant income, their susceptibility to manipulation and the appropriate audit response. We will review the conditions and restrictions attached to the grants, the purpose of the grants and circumstances if the council acts as a principle or an agent.

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy (cont.)

Materiality

Planning materiality
£831k

Consistent with our prior year's approach, we calculate our planning materiality as 2% of the gross expenditure of the Council. Planning materiality has been set at £831k based on 19/20 signed accounts. We will revisit the appropriateness of this level throughout the audit and our understanding at that stage of the implications from Covid-19 on the Council's viability and investments.

Performance materiality
£623k

Performance materiality represents 75% of planning materiality remains consistent with our prior period's approach. This consistency shows our expectation of misstatements and the effectiveness of the Council's internal control environment, based on the experience we gained from the prior year audit reflecting the lower level of errors we detected in the 2019/20 financial statements .

We will revisit the appropriateness of this level when we receive the draft financial statements. This will take account of our assessment of the control environment for the preparation of the accounts and supporting working papers as a result of both the impact of the merger with West Northamptonshire Council as well as the social distancing measures introduced and those which remain in force during the course of the audit in response to Covid-19.

Audit differences
£42k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £42k. We will communicate other misstatements identified to the extent that they merit the attention of the Audit and Governance Committee. This level is driven by our calculation of planning materiality and will change if this is revised during the course of the audit.

Timeline

MHCLG after consultation have agreed that the 2 year extension to 30 September for the publication of audited accounts was appropriate and that the removal of the common inspection date, requiring instead that the draft accounts be published no later than 1 August, was also appropriate. The Accounts and Audit (Amendment) Regulations 2021, which will implement these changes, were laid on 9 March and are due to come into force on 31 March 2021. Our provisional timetable is set out at section 07.

Fees

We include further details on the planned fees for 20/21, and factors affecting the scale fee, in Section 09.

Overview of our 2020/21 audit strategy (cont.)

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 the Daventry District Council and Group give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

Taking the above into account, and as articulated in this audit 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 auditing of groups, the valuation of pension obligations, the introduction of new accounting standards in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Council's audit, we will discuss these with management as to the impact on the scale fee

Overview of our 2020/21 audit strategy (cont.)

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at the same time as we issue the audit opinion on the financial statements.

02 Audit risks

Our response to significant risks

	What is the risk?	What will we do?
Misstatements due to fraud or error (Risk of management override) [Fraud Risk]	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	• Identifying fraud risks during the planning stages. • Inquiry of management about risks of fraud and the controls put in place to address those risks. • Understanding the oversight given by those charged with governance of management's processes over fraud. • Consideration of the effectiveness of management's controls designed to address the risk of fraud. • Determining an appropriate strategy to address those identified risks of fraud. • Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions. We will utilise our data analytics capabilities to assist with our work.

	What is the risk?	What will we do?
Inappropriate capitalisation of revenue expenditure [Fraud Risk]	Linking to our risk of misstatements due to fraud and error, we have considered the capitalisation of revenue expenditure on property, plant and Equipment, investment properties as a specific area of risk. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation. Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.	We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure: • Test a sample of capital expenditure at a lower testing threshold to verify that revenue costs have not been inappropriately capitalised; • Our testing will examine invoices, capital expenditure authorisations, leases and other data that support capital additions. We will review the sample selected against the definition of capital expenditure in IAS16. • As part of our journal testing strategy, we will review unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

Our response to significant risks

	What is the risk?	What will we do?
Valuation of Property, Plant & Equipment and Investment Property Assets [Significant Risk]	Property, plant and equipment (PPE) and Investment Property assets represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end asset property valuations held on the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. As at 31 March 2020 the value of the Council's PPE was £55m and Investment Properties £30m. Due to significant economic uncertainty caused by the Covid-19 pandemic there is an increased risk that asset valuations (based on market conditions) may be materially misstated.	In terms of the overall response, we will: • evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner; • adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property: • Consider 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; • Sample testing key asset information used by the valuers in performing their valuation; • Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale. • Consider any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements. We will also consider the potential impact of Covid-19 on valuation uncertainties. As a significant audit risk, we will be engaging EY valuation specialists to assist the audit team to gain assurance that the impact of Covid-19 on property valuations is materially stated.

Inherent Risks and Other areas of audit focus

What is the risk/area of focus?	What will we do?
Pension liability valuation and disclosures The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. 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 31st March 2020 this totalled £27.3 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 due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk.	We will: • Liaise with the auditors of Northamptonshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Daventry District Council • Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. • Assess the results of the triennial valuations, including the assumptions used and the impact on the Council's pension liability. • Consider any updated information in respect of the impact of national issues including Goodwin and McCloud. • Consider the nature and value of level 3 investments held by Northamptonshire Pension Fund and the proportion of the overall Fund relating to Daventry District Council in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2021.

Inherent Risks and Other areas of audit focus (cont.)

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

What is the risk/area of focus?	What will we do?
Going Concern disclosures Covid-19 has created a number of financial pressures throughout Local Government. This includes reductions in income for the Council as well as additional cost pressures. There is some financial support from MHCLG that covers financial consequences of Covid-19. West Northamptonshire Council was formed under statutory instrument The Northamptonshire (Structural Changes) Order 2020, which was made on 14 February 2020 and came into effect from 01 April 2021 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 and their ability to continue with providing services with regards to the transition to Unitary	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. 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). With regards to the councils transition to unitary, our procedures will focus on sufficiency and appropriateness of management's assessment that they have sufficient resources to continue to deliver services at the planned levels; and disclosures of any material uncertainties in the continuity of service provision. Our audit procedures will: • Assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate; • Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts; • Review the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion; • Ensure that an appropriate going concern disclosure has been made within the financial statements; and • Consider the impact on our audit report and comply with EY consultation requirements, if this is determined to be appropriate.

Inherent Risks and Other areas of audit focus (cont.)

What is the risk/area of focus?	What will we do?
Recognition of grant income associated with Covid-19 Central Government has provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies. The Council needs to review each of these grants to establish how they should be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	We will: • Consider the revenue and capital grants received by the Council; • Assess the potential for manipulation of individual grant streams (including those related to business rates); and • Responsive to the risk, carry out testing to ensure the accounting treatment and recognition applied to grant income is appropriate. On a sample of the grant and funding population we will: • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; • Assess whether the accounting appropriately follows those judgements. We will also check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Other areas of audit focus (cont.)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

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

We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.

We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.

You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.

We may ask for new or changed management representations compared to prior years.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Formation of West Northamptonshire Council and demise of Daventry District Council on 31 March 2021. The demise of the Council on 31 March 2021 will affect its staff capacity, with potential impact on its ability to produce a materially correct set of accounts. Also, in the approach to full unitary formation, there is a risk that focusing on the "shadow" unitary authority could have a negative impact on the production of the statements, working papers, and the running of the audit. The Council currently has the level of resource, continuity and knowledge required to deliver the financial statements and to respond to the audit team during its visit between July and September 2021. However, there is very little room for manoeuvre in these arrangements should any key individuals leave their roles in the meantime. This is a challenge which is exacerbated by the working restrictions brought in as a result of the COVID outbreak. We are also dependent on the above not having a detrimental impact on the Northamptonshire Pension Fund audit and the auditors' ability to complete IAS 19 assurances. We appreciate the flexibility shown to date by Council staff. Both EY and the Council need to ensure that necessary resources are available to deliver the audit by early September at the latest.	We will: • Prioritise the complex and time-consuming areas of the audit • Work across the three relevant audit teams (including South Northamptonshire, Northamptonshire County Council and Northampton Borough Council) as far as possible where testing necessitates involving the successor body, West Northamptonshire, as they will have the ledger w.e.f. 1 April 2021 (this is likely to affect unrecorded liabilities and year-end cut-off work). • Liaise as soon as we aware of any potential delays to the timetable of the financial statements and audit. We will also consider the impact on the nature, timing and extent of our audit procedures should we have any heightened concerns on the adequacy of the control environment which supports the preparation of the financial statements.

03 Value for Money Risks

Value for Money

The Council's responsibilities for value for money

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

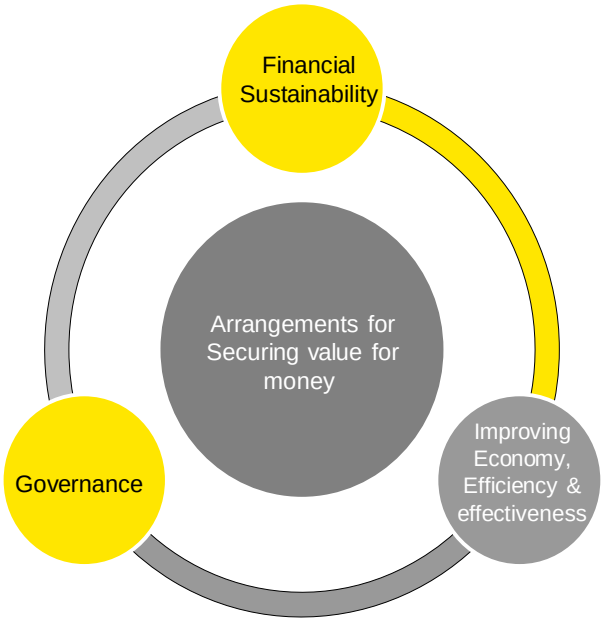
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

On 1 April 2020, the NAO's new Code of Audit Practice (the 2020 Code) came into force. This sets out how local auditors are expected to approach and report their work on value for money (VFM) arrangements under the new Code and applies to audits of 2020/21 financial statements onwards. Under the 2020 Code, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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



Value for Money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

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

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

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

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks

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

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

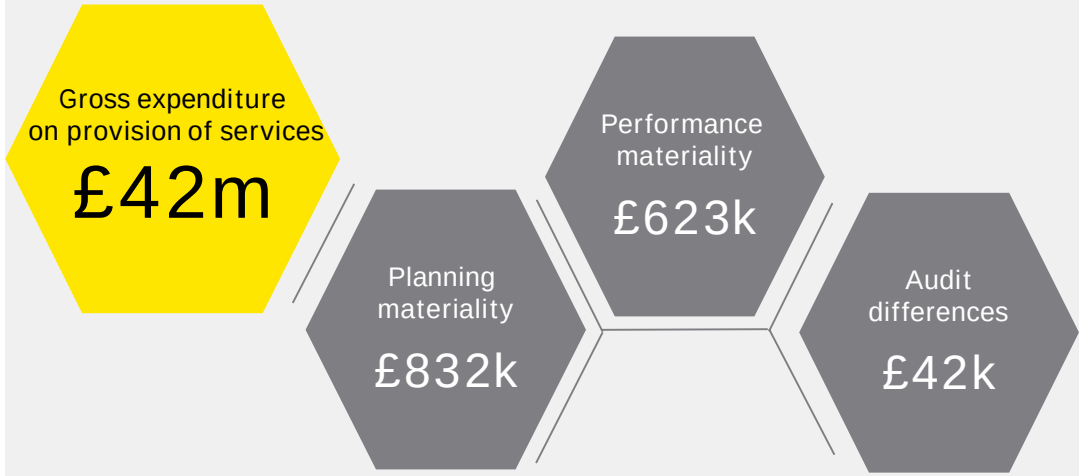
We have yet to commence our value for money planning. In drafting this plan however, we have taken into consideration the 2019/20 value for money work, our discussions with the finance team and our knowledge of sector-wide issues that may affect the Council. We will continue to update the Audit and Governance Committee on the outcome of our VFM planning, any changes to our risk assessment, and our planned response to any identified risks of significant weaknesses in arrangements. Although we have not identified any risks of significant weakness in arrangements at this stage, we will be updating our understanding on the Council's arrangements to secure its financial resilience up to the vesting day and merger with West Northamptonshire Council as well as how the Council took informed decisions on significant capital programmes and projects that were underway during the 2020-2021 financial year. We will report to the Audit and Governance Committee if our planning and risk assessment work identifies any risks of significant weaknesses in the Council's value for money arrangements, and thereafter if we believe these will have materialised, including any associated recommendations.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £831k. This represents 2% of the Council's gross expenditure on provision of services. For the reasons set out on page 8, our materiality levels will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Governance 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 £623k which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

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

Specific materiality – We will set a lower materiality for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

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

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

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

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

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

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (cont.)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Reliance on the work of other auditors (Northamptonshire Pension Fund auditor);
- Reliance on the work of experts in relation to areas such as pensions and property valuations; and
- Substantive tests of detail of transactions and amounts.

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

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

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

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

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

Scoping the group audit

Group scoping

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

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

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

DDC	A	Full scope audit
TDECL	B	Specific scope audit
DNL	C	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. The audit of the Daventry District Council's (DDC) accounts is full scope.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. We have assessed, using information from the 2019/20 audited financial statements, that The Daventry Estate Company Ltd, (TDECL) which is consolidated within the group accounts is a specific scope audit. We will perform the work on significant accounts above our group materiality threshold ourselves.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. The only other entity included in the Group is the 20% interest in Daventry Norse Ltd (DNL). Individually, this component's impact on the Group comprehensive income and expenditure account was trivial in 2019/20.

Scoping the group audit

Details of specified and other procedures

Specific scope – The Daventry Estate Company Ltd, (TDECL)

We expect to perform work on TDECL significant accounts ourselves. Based on the audited group accounts for the 2019-2020 financial year, the significant accounts we have identified are as follows. We will revisit this assessment when we have obtained and review the 2020-2021 group accounts. We will keep under review the need to extend or reduce our procedures in the light of the company's outturn for 2020/21 and the significance of its results and financial position to the Group.

- Cash and Cash Equivalent
- Investment property valuations.
- Long term creditors
- Investment
- Turnover

We have also issued group audit instructions to the appointed auditor for TDECL. We will also review the external auditor's response to our group audit instructions and determine whether this changes the nature, timing and extent of our audit procedures. We have asked specific questions of the TDECL external auditors on their assessment of the impact from Covid-19 on the appropriateness of TDECLs disclosures and judgements on going concern and whether this is predicated on parental support.

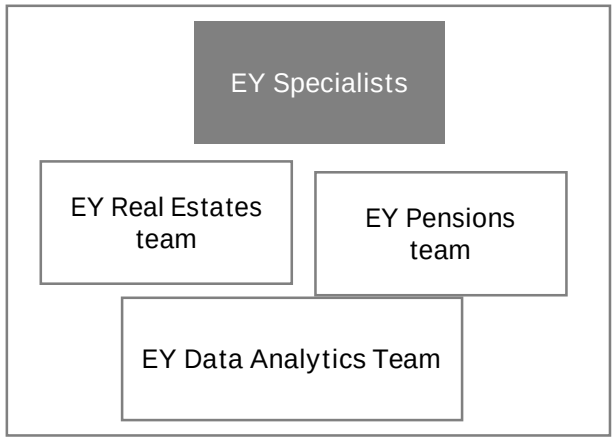
Other procedures – Daventry Norse Limited

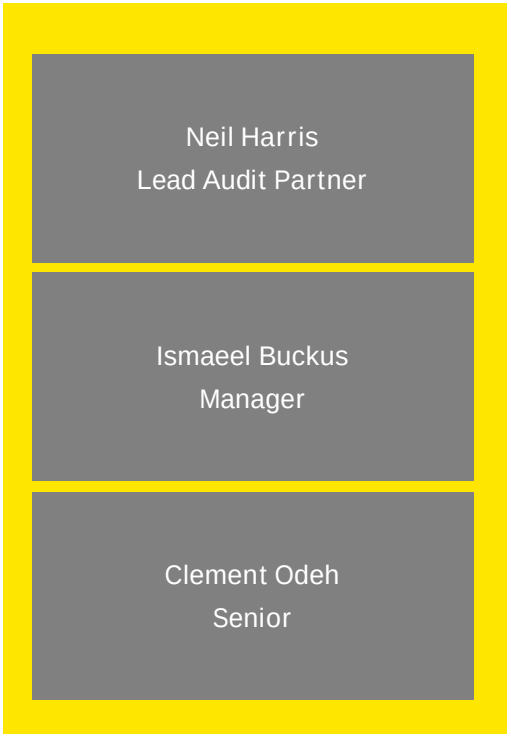
- Perform analytical review procedures.
- Test consolidation journals, intergroup eliminations.
- Enquiry of management about unusual transactions in these components.
- Recalculation of DDC Share of investment in Associate

06 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
Valuation of Land and Buildings	EY Real Estate Team
Pensions disclosure	EY Pensions Team

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

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

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

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit and Governance 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.

The disruption caused by Covid-19 may impact on our ability to complete the audit to the planned timetable. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above. The timetable below is therefore provisional and will need to be revisited throughout the period. We will discuss any potential delays to the timetable with officers and the Audit and Governance Committee Chair.

Audit phase	Timetable	Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes	April/August 2021	16th June 2021 Outline Audit Plan and 28th July 2021 Updated Audit Plan	Audit Planning Report
Walkthrough of key systems and processes	August 2021		
Draft group accounts received	July/ August 2021	TBC	Updated Audit Plan (if needed)
Year end audit	August 2021		
Audit Completion procedures*	September 2021	29th September 2021	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting*	October/November 2021	December 2021	Annual Audit Letter

*We wish to highlight to the committee that the 2020/21 Northamptonshire Pension Fund is expected to be completed around September 2021 and any delays in the 2020/21 Northamptonshire Pension Fund audit will impact the timetable for the audit completion and conclusion of the Council's audit in relation to IAS 19 assurance provided by the pension fund auditors for the Council's pension liability.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

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

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it applied after 15 March 2020. The Ethical Standard has a general prohibition on the provision of non-audit services by the auditor (and its network) which applies to UK Public Interest Entities (PIEs). A narrow list of permitted services continues to be allowed. Note that currently the Council does not currently fall under the definition of a PIE.

Summary of key points

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering was applied for otherwise prohibited non-audit services that were open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit and Governance Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit and Governance Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019.

We do not currently provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee – Code work	37,564	37,564	37,564
Group Accounts and Quality	TBC		8,162
Property valuations significant risk and use of EY Real Estate Specialist	TBC		8,872
Additional work on pensions	TBC		1,699
Property valuations material uncertainty	TBC		2,084
Going concern disclosure	TBC		3,472
EY consultations on auditor report	TBC		2,019
Total Audit Fee	TBC		63,873
Other non-audit services not covered above (Housing Benefits)	Nil*	Nil*	Nil*

All fees exclude VAT

*The Council have decided not to appoint EY to complete the Housing Benefit Subsidy Claim certification in 2019/20 and 20/21 as we were unable to guarantee that we could sufficiently resource and complete our work by the DWP reporting timetables.

The 2020-2021 audit fee is presented is based on the following assumptions:

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

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

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

We do anticipate scale fee variations for the 2020-2021 audit to respond to the significant and inherent risks, areas of focus on our audit of the Council's financial statements as well as our work on value for money arrangements as set out in this report. We will report our proposed variations to officers and the Audit and Governance Committee at the conclusion of our 2020-2021 audit and before we submit to PSAA for approval and determination.

Notes:

1. We are currently in discussion with PSAA nationally about an increase to the scale fees for Local Authority audits which would be recurring for 2020-2021. For Daventry District Council, in our 2019-2020 external audit plan and reporting, we outlined our view that the scale fee should be increased from £37,564 to £74,297 to reflect the regulatory and professional standards context that is driving our work to safeguard high-quality audits. This is yet to be determined by PSAA and has not been agreed by management.
2. At the conclusion of our 2019-2020 audit, we reported in our Annual Audit Letter the scale fee variations for our response to significant audit risks and additional audit procedures arising from Covid-19. Whilst we have reported to management our scale fee variation, officers have not agreed to this and is subject to PSAA approval.

Appendix B

Required communications with the Audit and Governance Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – June and July 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – Upon completion of the audit

Required communications with the Audit and Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report – Upon completion of the audit
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report – Upon completion of the audit
Fraud	• Enquiries of the Audit and Governance 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 – Upon completion of the audit
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report – Upon completion of the audit

Required communications with the Audit and Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report – June and July 2021 Audit results report – Upon completion of the audit
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – Upon completion of the audit
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of	Audit results report – Upon completion of the audit
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – Upon completion of the audit

Required communications with the Audit and Governance 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 – Upon completion of the audit
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – Upon completion of the audit
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – Upon completion of the audit
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report – June and July 2021 Audit results report – Upon completion of the audit
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report – June and July 2021 Audit results report – Upon completion of the audit

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 1, 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 Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. We will update the Audit and Governance Committee prior to our audit of the 2020/21 financial statements on our planned level of audit materiality.

For the Council, we typically base on our audit materiality on service expenditure as we believe the Authority's expenditure on its core services influence the economic decisions of the users of the financial statements.

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

Appendix D

Scoping the group audit

The below table sets out the scoping details of all locations. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping								
In scope locations	Scope	Statutory audit performed by EY	Internal Audit report	Coverage			Current year rationale for scoping	
				Investment properties	Net cost of services / Profit before tax	Total assets	Size	Risk
Daventry District Council	Full	✔	2020: Significant Assurance	81%	100%	95.6%	Yes	Yes
The Daventry Estate Company Ltd	Specific	X		19%	0%	4.4%	No	Yes
TOTAL FULL & SPECIFIC SCOPE				100%	100%	100%		

In 2019/20 Daventry District Council total investment properties was £6.9m. This value is above our planning materiality for 2020/21 and represents a significant proportion of account balance. For this reason we have designated the component as specific scope however we will keep under review the position in the light of the draft accounts for 2020/21. Please refer to further details on our group scoping at page 29.