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Dear Judith

Audit scope and additional work 2019-20

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to update you on our plans to work with you over the coming months, and to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst also seeking to maintain our fee within the envelope which we discussed previously.

I wrote to you previously regarding our detailed audit proposals on 24 January 2020, to outline how the increased regulatory focus facing all audit suppliers was impacting on our planned audit programme. I set out in my letter my expectation of what this would mean for our audit coverage for 2019-20, as well as for the audit fee. Items I highlighted in particular included the impact of 'raising the bar' to meet the FRC's expectation that all audits would now achieve a level of 2a (acceptable with limited improvements only) or above. I explained that we would need to increase our managerial oversight to achieve this audit standard. In addition, I outlined how you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. I also outlined the specific additional work which we would need to undertake in complex areas of the accounts with high estimation uncertainty, such as Property, Plant and Equipment and Pensions valuations. I also outlined the changes we were making to our materiality level to reflect greater public scrutiny, as well as our planned use of an auditor's expert for PPE valuation. I set out full details in my audit plan dated 24 January, where I advised that my estimate was that an additional fee of £20,850 would be required to complete the audit.

Subsequent to the above, global events have moved in an unexpected and tragic direction. None of us could have foreseen in January the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

With this in mind we have prepared an update to our Audit Plan for 2019-20 and I attach this for your consideration. The following are the key points which I particularly wish to highlight for your attention.

Addition of a significant audit risk in respect of Covid 19:

The crisis has increased audit risk factors in the following areas:

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- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;

- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management's estimates;

- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and

- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We have set out in the Audit Plan update the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid 19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.

Value for Money and Financial Standing

As part of our VFM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019-20, although we will keep this under review for 2020-21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income, and investment properties. We envisage linking the additional VFM work around financial standing with our Going Concern opinion work.

Regulatory changes.

As you will be aware, earlier this month, CIPFA decided to adopt a small number of presentational changes to its Accounting Code of Practice for 2019-20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit. The additional audit risk factors that I highlighted in my January 2020 letter regarding raising the bar, PPE and Pensions work, for example, will therefore all still be required this year. You will also be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021-22. We are keen to agree a timetable that works for you, and that we can both commit too. We can discuss a proposed audit timetable at our liaison meeting on 22 April.

Fee impact

As I set out in my previous letter, final audit fees are determined by PSAA, after the audit has been completed. At this stage, it is difficult to quantify the impact of the additional work required in respect of Covid19. My best estimate is that, taking into account increased work in respect of Covid 19, and reduced work on IFRS 16, the fee set out in our Audit Plan of 24 January 2020, totalling £129,288, remains appropriate, and we will do our best to work within this envelope. Should circumstances change, we will let you know.

I hope this is helpful and allows you to plan accordingly for the 2019-20 audit. Should you wish to discuss this further, please do not hesitate to contact me. I attach a copy of our Audit Plan update for your comment. We look forward to working with you again this year.

Yours sincerely

Gareth

Gareth Mills

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP