

**Agenda**

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10. Statutory Auditor Report on the 2019/20 Audit and the Council's  
Financial Report - Statement of Accounts 2019/20 – **Annex A**

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Report of the Director of Finance and Commercial (S151 Officer)

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Hambleton District  
Council  
Audit results report

Year ended 31 March 2020

October 2020



Building a better  
working world



Private and Confidential

15 October 2020

Dear Audit, Governance and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit, Governance and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hambleton District Council for 2019/20. We have substantially completed our audit of Hambleton District Council for the year ended 31 March 2020.

As set out on page 6 to 8, a number of issues have arisen as a result of covid-19 which may impact on our audit opinion. We will liaise with management throughout our internal consultation process and update the Audit, Governance and Standards Committee with the form of opinion at the meeting on 20 October 2020.

This report is intended solely for the use of the Audit, Governance and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit, Governance and Standards Committee meeting on 20 October 2020.

Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary



# Executive Summary

## Scope update

In our audit planning report presented at the Audit, Governance and Standards Committee meeting on 31 March 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. We note that the valuations carried out by the Councils external valuer were performed in February 2020 before the Covid-19 pandemic took hold. We therefore consider that this gives rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

### Changes to the scope of our audit as a result of Covid-19

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 27.



# Executive Summary

## Scope update

### Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £0.878m, with performance materiality, at 75% of overall materiality, of £0.659m, and a threshold for reporting misstatements of £0.043m. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 1.8% of gross operating expenditure.

### Change in Audit Team

As set out in our Audit Planning Report, Hassan Rohimun is the Associate Partner responsible for the overall quality and delivery of the audit. He will now be supported by Claire Mellons as Senior Manager, following the departure of Vusi Maseko from EY. Claire is already known to the finance team as she has worked on the audit in previous years.

## Status of the audit

We have substantially completed our audit of Hambleton District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority's financial statements. However until work is complete, further amendments may arise:

- Completion of audit of land and buildings valuations, including car parks not included within the rolling programme, classification of industrial units and consideration of impact of Covid on the valuations;
- Receipt of IAS 19 assurances from the auditors of North Yorkshire Pension Fund;
- Evidence to support the rationale for the performance related pay awards to senior officers, and that they have been approved in line with policy;
- Evidence underpinning the calculation of the £100,000 exit package disclosed in note 33 to the accounts;
- Review and challenge of going concern assessment provided by management;
- Final senior manager and audit partner review of audit file; and
- Final accounts and audit completion procedures.

# Executive Summary

## Audit differences

At the time of writing this report, there are one unadjusted differences arising from our audit, relating to the over-accrual of the housing benefit subsidy debtor. Management have chosen not to amend the debtor. as they do not believe that the adjustment is material to the financial statements and we will request formal representation of this in our management representation letter. We also identified audit differences with an aggregated impact of £0.35m which have been adjusted by management. Details can be found in Section 5 Audit Differences.

Prior Year Adjustment - We identified some classification errors in the note 7(c) 'Expenditure and Income analysed by Nature' that impacted both the current, and prior year, disclosures. We note that some narrative to explain the restatement is also necessary to meet the requirements of the accounting standards and, therefore, we will work with management to agree this wording.

## Objections

We have received one objection to the 2019/20 accounts from a member of the public.

We are currently assessing this objection and seeking legal advice as appropriate. We will need to consider the outcomes of our assessment before reaching a conclusion on whether we can issue our opinion on the financial statements or value for money conclusion. We will continue to keep management informed of our progress.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hambleton District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit, Governance and Standards Committee.

# Executive Summary

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## Control observations

At the time of writing this report, subject to outstanding procedures, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk in relation to commercial investment plans.

At the time of writing this report, subject to outstanding procedures, we expect to have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

Our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority is still underway. We will update the Audit, Governance and Standards Committee of our findings at the meeting on 20 October 2020.

We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will perform this work on the final submission of the Council.

We also wish to report the following matter:

- We noted that the accounts disclose an exit package paid out with a value of £100,000. We have reviewed the Council's pay policy and identified that only payments 'in excess of £100,000' need approval by Cabinet. Although we note that the Council is in compliance with their pay policy in respect of approval, given that this payment is on the threshold of approval limits and the possible public interest in transactions of this nature the Council may want to consider seeking approval for such payments to ensure greater transparency.

## Independence

Please refer to Section 10 for our update on Independence.



## 02 Areas of Audit Focus





# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Our judgement is that the significant risk at the Authority relates to the recognition of grants, the potential for improper capitalisation of revenue expenditure and the omission of expenditure in the financial statements.

#### What are our conclusions?

As part of our testing of recognition of grant income we identified an amount of £177,101 which related to a drawdown on a zero-interest loan from Salix Finance Limited for the Energy Efficiency Loan Programme. This drawdown of cash had been incorrectly classified as income. Upon review of the supporting documentation we identified that the total loan value from Salix Finance Limited was £350,000 repayable over 5 years. Management have agreed to amend the financial statements to show this transaction as a creditor on the balance sheet, rather than recognise income.

We performed a further review of the listing of grant income and did not identify any further transactions of this nature.

Our testing of capital additions is still in progress and we will update the Audit, Governance and Standards Committee of the findings arising from our work at the meeting on 20 October 2020.

At the time of writing this report, we have not identified any potential accruals or provisions which may have been omitted from the financial statements; however we will continue to review minutes of key meetings until signing of our audit report.

Our work on the cut-off of transactions recorded in the general ledger and post year-end bank statements is still in progress. We will update the Audit, Governance and Standards Committee of the findings arising from our work at the meeting on 20 October 2020.

#### What judgements are we focused on?

Our judgement is that the significant risk at the Authority relates to the recognition of grants, the potential for improper capitalisation of revenue expenditure and the omission of expenditure in the financial statements.

#### What did we do?

We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions.

We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.

We reviewed minutes of Council, Cabinet and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

We reviewed a sample of transactions recorded in the general ledger and payments from the bank account post year end, to confirm that the associated income and expenditure has been recorded in the correct period.



# Areas of Audit Focus

## Significant risk

Misstatements due to fraud or error

### What is the risk?

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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What judgements are we focused on?

We considered the specific circumstances of the Council and did not identify any judgements that we considered to lead to a significant risk of misstatement due to fraud or error, other than those identified as part of our risk of fraud in revenue and expenditure recognition.

Our work in this area, therefore, focussed on those mandatory procedures that are set out in auditing standards.

### What did we do?

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.

We reviewed accounting estimates for evidence of management bias.

We evaluated the business rationale for any significant unusual transactions.

### What are our conclusions?

Our work in this area has yet to be concluded and we will update the Audit, Governance and Standards Committee at the meeting on 20 October 2020.



# Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

## What was the risk/area of focus?

## What were our conclusions?

### Valuation of land and buildings

The value of land and buildings represents the most significant asset balance in the Council's financial statements, and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Our work in this area is still underway.

We are in discussions with management, in consultation with their external valuers, on the impact of car parks not being valued within the 5 year interval required by the CIPFA Code.

We also note that the valuations performed this year were performed in February 2020. We are considering whether the Covid-19 pandemic that came into effect during March 2020 would have had any impact on these valuations, particularly the valuation of industrial units that are valued at market value.

### Pension liability valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019, this totalled £21 million.

The information disclosed is based on the IAS 19 report issued by the Council's actuary, AON Hewitt.

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

We have assessed 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 also considered the reviews undertaken by our EY actuarial team.

We have reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We are still awaiting correspondence from the auditor of the North Yorkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.



# Areas of Audit Focus

We identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What was the risk/area of focus?	What were our conclusions?
<p>Disclosures on Going Concern</p> <p>Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.</p>	<p>Management have provided us with updated disclosures to be included in the financial statements and supporting documentation for the assertions that they have made. We are in the process of reviewing this documentation and will share our view with the Audit, Governance and Standards Committee on 20 October 2020.</p>
<p>Events after the balance sheet date</p> <p>We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.</p>	<p>Management have included a detailed disclosure in the financial statements. We will consider this disclosure in the context of the information provided by management to support their going concern assessment.</p>



# 03 Audit Report



# Audit Report

## Draft audit report

We are required to undertake a consultation process to determine the impact of Covid-19 on the form and content of our audit report. We will update the Committee with the status of this consultation process at the meeting on 20 October 2020.

### Our opinion on the financial statements

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# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

At the time of writing this report, we have not identified any misstatements greater than £0.659m which have been corrected by management, other than the following disclosure issue:

Classification errors - We identified some classification errors in the note 7© ‘Expenditure and Income analysed by Nature’ that impacted both the current, and prior year, disclosures. We note that some narrative to explain the restatement is also necessary to meet the requirements of the accounting standards and, therefore, we will work with management to agree this wording.

Management have also made some minor adjustments to the financial statements with a total value of £0.350m and made some minor updates to the Officer Remuneration disclosures.

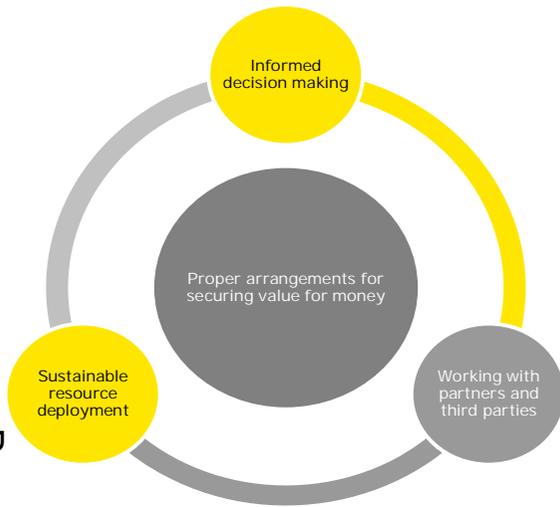
## Summary of unadjusted differences

During the course of our audit, we identified that the housing benefit subsidy debtor is overstated by £50,089. Management have chosen not to amend the financial statements for this adjustment as they do not believe the impact is material.



05

## Value for Money



## Background

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. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Covid-19 has had a significant financial impact on the Council. For 2020/21 the Council is developing plans to mitigate the impact on the Council’s overall financial position looking ahead Members will need to update and review medium term financial plans to reflect the impact of Covid-19 and ensure actions plans are agreed to ensure financial sustainability is maintained.

## Overall conclusion

We identified one significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report.

Subject to our outstanding procedures, we expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk area in our Audit Planning Report.

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### What is the significant value for money risk?

The Council had outlined plans to invest in commercial property to generate additional income over the next three years. It was planned that the additional income would be used to fund Council services and is based on increasing the investment property budget to £30m.

As part of the 2018/19 Audit Results Report, we highlighted a number of areas to the Audit, Governance and Standards Committee that the Council should consider to mitigate the risks arising from the commercial development activity.

### What arrangements did the risk affect?

Take informed decisions

### What are our findings?

We note that the Council has not proceeded with any commercial property purchases in 2019/20, and in 2020/21 the decision was taken to place the Commercial Investment Strategy on hold.

We are concluding our review of the governance processes around the decisions taken in 2019/20; based on the work to date we expect to have no matters to report to you in relation to the Value for Money conclusion.



## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

Our work on the review of the Annual Governance Statement is still underway. We will update the Audit, Governance and Standards Committee of our findings at the meeting on 20 October 2020.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit, Governance and Standards Committee.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). At the time of writing this report, we have not identified any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. At the time of writing this report, we have not identified any issues.

### Other matters

We noted that the accounts disclose an exit package paid out with a value of £100,000. We have reviewed the Council's pay policy and identified that only payments 'in excess of £100,000' need approval by Cabinet. Although we note that the Council is in compliance with their pay policy, given that this payment is on the threshold of approval limits the Council may want to consider seeking approval for any future payments to ensure greater transparency of such payments.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08

# Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit, Governance and Standards Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit, Governance and Standards Committee on 20 October 2020.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken non-audit work in this period in relation to certification of claims and returns. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC	TBC	47,933
Non-audit work - certification	TBC	-	11,280

We wrote to management and the Audit, Governance and Standards Committee Chair on 10 February setting out our considerations on the sustainability of UK local public audit. A scale fee of £31,381 has been set by PSAA for the 2019/20. We have been in correspondence with management to outline the impact that the changing risk and regulatory environment is having on our audits and why we do not believe the existing scale fees provide a clear link with either a public sector organisation's risk or its complexity and the work required to deliver a safe audit opinion. We outlined to management that we believe the fee for the Council should be set at £57,125. Management has not agreed to this increase in the scale fee and we have provided the PSAA with our assessment of the fee. Some of the factors relevant to this discussion were set out in our Audit Planning Report presented to the March 2020 Audit Committee.

We also note that there have been changes to our audit scope because of Covid-19 and additional work in response to issues arising during the audit. We will discuss the impact of these on the proposed fee with management before agreeing our final fee. Areas of additional work include:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Council's valuation report;
- Review of the valuation of car parks
- Considering and responding to objections from a local elector
- Additional procedures to consider the Council's going concern assessment;
- Consultation requirements concerning the impact on the Auditor's report from the land and building valuations material uncertainty clause and going concern assessment.

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included in the table below.

We confirm that none of the services listed in has been provided on a contingent fee basis.

As at the date of this report, we expect that we will also be engaged to perform housing benefit certification work for 2019/20.

Description of relationship	Related independence threat	Safeguards adopted and reasons considered to be effective
Housing benefit certification work	Self interest	The fees for certification are not significant in the context of the overall audit fee and relevant approvals are obtained from Public Sector Audit Appointments Limited.
	Self review threat	The work on housing benefit certification is distinct from the external audit and follows specific procedures set by the DWP.

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. We will continue to monitor and assess the impact of this standard on the services that we provide to the Authority.

## Other communications

### EY Transparency Report 2019

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 2019:

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)



09 Appendices

## Appendix A

# Required communications with the Audit, Governance and Standards Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit, Governance and Standards 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.	Audit planning report	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report – October 2020	

# Appendix A

## 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: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report – October 2020
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report – October 2020
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report – October 2020
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit, Governance and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit, Governance and Standards Committee responsibility.</li> </ul>	Audit results report – October 2020

# Appendix A

Required communications	 What is reported?	 When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report – October 2020
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: <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report Audit results report – October 2020

# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit results report – October 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• 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.</li> </ul>	Audit results report – October 2020
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report – October 2020

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>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</li> <li>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</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>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.</li> </ul>	Audit planning report Audit results report – October 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report – October 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report – October 2020
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report – October 2020
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report – October 2020
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report – January 2021

# Management representation letter

We will provide the template management representation letter once we have finalised the position on the going concern consultation and outstanding valuation matters.

Management Rep Letter

## Accounting and regulatory update

### Future accounting developments

Since the date of our last report to the Audit, Governance and Standards Committee there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Hambleton District Council
IFRS 16	<ul style="list-style-type: none"><li>The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021.</li></ul>	<ul style="list-style-type: none"><li>The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.</li></ul>

# Appendix C

## Regulatory update

Since the date of our last report to the Audit, Governance and Standards Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Hambleton District Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> <li>The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.</li> </ul>	<ul style="list-style-type: none"> <li>The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>Further updates will be provided when possible.</li> </ul>
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> <li>The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.</li> <li>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</li> </ul>	<ul style="list-style-type: none"> <li>Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.</li> <li>Further updates will be provided when possible.</li> </ul>
Independence	<ul style="list-style-type: none"> <li>The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.</li> </ul>	<ul style="list-style-type: none"> <li>We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.</li> </ul>

About EY

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