Huntingdonshire District Council
Audit results report

Year ended 31 March 2020

21 January 2021

Building a better working world

Huntingdonshire District Council

21 January 2021

Dear Corporate Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Corporate Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Huntingdonshire District Council (the Authority) for 2019/20. We have agreed the content of the report with the Finance Manager.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete but owing to the protracted nature of the audit we are still completing our review procedures and need to complete some specific internal consultation processes on prior year adjustments made by the Authority as well as the impact of Covid-19 on the content of the audit opinion. Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. We expect to include an emphasis of matter paragraph in relation to the material uncertainty caveat in the Authority's report to support the valuation of its property assets, including investment properties. This is similar to several authorities across the country.

As we communicated to the June 2020 Committee meeting, owing to the Authority's internal audit provision being impacted by resourcing issues, we are issuing a qualification to your arrangements to secure economy, efficiency and effectiveness in your use of resources, specifically referencing the lack of internal audit provision for the full financial year ending 31 March 2020.

This report is intended solely for the use of the Corporate Governance 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 given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Corporate Governance Committee meeting on 27 January 2021.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

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.psaa.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 / Terms and Conditions of Engagement. 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 Hywell Ball, 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 Outline Audit Plan tabled at the July 2020 Corporate Governance Committee meeting, 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 exception:

Change in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £2.122m (Outline Audit Plan – £1.865m). This results in updated performance materiality, at 75% of overall materiality, of £1.59m, and an updated threshold for reporting misstatements of £0.106m.

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. The full impact on the audit fee is yet to be determined but will be subject to agreement with the Finance Manager and PSAA.

Status of the audit

We have substantially completed our audit of Huntingdonshire District Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Outline Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Audit testing completed and subject to final review

‣ Long-term debtors	‣ Bad debt provision	‣ Ctax/NDR debtors & impairment	‣ IAS19 & pensions
‣ Other provisions	‣ Analytical review - payroll	‣ Analytical review - Hsg Benefits	‣ Expenditure & Funding Analysis
‣ Other income	‣ Ctax/NDR income in CIES	‣ Usable and unusable reserves	‣ Journal testing

Outstanding audit work

- Receipt of information relating to a sample contracts and subsequent audit review.
- Final review of the two prior period adjustments and completion of the associated internal EY consultation.
- Final review of the revised disclosure on property valuations and the material uncertainty caveat along with the subsequent internal EY consultation on the emphasis of matter paragraph in the audit opinion.
- Review of the revised going concern assessment and disclosure along with the subsequent internal EY consultation on the impact on the audit opinion.
- Final review of the updated Annual Governance Statement.
- Review and assessment of the revised statement of accounts which we have received on 21 January 2021.
- Final audit review and completion procedures.
- Review of subsequent events & receipt and review of the signed management representation letter.

[Continued]

Executive Summary

Status of the audit (continued)

Our audit opinion will emphasise the valuation of investment properties and other land and buildings valued using market data. We will include an "emphasis of matter" paragraph to draw users attention to valuation uncertainty disclosures in the accounts. This is not a modification to the audit report and the draft audit report is included in Section 3. We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

Unadjusted audit differences

- An overstatement in cash of £256,000. Following audit enquiries, the Finance Manager has determined that this relates to the cumulative impact of historic issues with the cash and bank reconciliation. The Finance Manager intends to write off this difference in 2020/21.
- A potential overstatement in the value of investment property of £123,000 – the Authority deem this to be a difference relating to the work of EY's expert and the value is not material.
- A potential increase in the pension liability of £130,000 relating to the Goodwin case - the Authority deem this to be immaterial.

We have asked for these adjustments to be correct but we understand the Authority's reasons for not adjusting. We ask that the Corporate Governance Committee approve the Authority's rationale as to why the items are not corrected and include the rationale in the Letter of Representation.

Adjusted audit differences

We have identified a number of audit differences which are being corrected in the final accounts. We report for the Committee's attention:

- An increase of £673,000 in the pension liability related to a re-run IAS19 report.
- We identified that £827,000 of 'Grant income received in advance' was actually received after the year end and therefore should not have been treated as a creditor. As a result, creditors was overstated by £827,000 with a resultant overstatement of cash.
- We identified audit adjustments in relation to exit packages (Note 36) and officers remuneration (Note 29). These disclosures relate to sensitive information and more likely to be scrutinised by the reader of the accounts. We include in Section 7 a recommendation for the Authority to improve its arrangements for ensuring the accuracy and completeness of these notes.

Prior period adjustments (PPAs)

At the end of the prior year audit the Authority highlighted an uncertainty relating to National Non-Domestic Rates (NNDR) which MHCLG had identified dating back to 2015/16. At that stage the Authority did not have sufficient information to quantify the impact on the accounts. During 2019/20 the Finance Manager has worked through the issues and identified historic errors dating back to 2013/14 relating to NNDR and the treatment of Enterprise Zone reliefs, small business reliefs and bad debt provisions. These errors impact the Collection Fund and other primary statements for 2019/20 and the prior year comparators. The Finance Manager has provided the supporting working papers and we ae satisfied with the adjustments identified.
In addition, in the latter part of 2020, the Finance Manager identified another historic issue in relation to the Collection Fund, this time relating to Council Tax and the treatment of the Ministry of Defence council tax payments in lieu. These errors were also historic, dating back to 2015/16, and also impact the Collection Fund and other primary statements for 2019/20 and the prior year comparators. We have yet to receive all the Authority's supporting working papers to outline the adjustments being proposed.

Executive Summary

Audit differences (continued)

As a result of the two issues highlighted in the draft accounts the Authority has accounted for the first PPA and has since proposed the second PPA. We have reviewed the supporting working papers and are satisfied with the first PPA. We have yet to receive working papers to support the second. We have yet to check that the final accounts include the agreed adjustments. In addition, until we complete our review of the final accounts we cannot instigate our internal EY consultation process for PPAs. We will provide a verbal update to the Committee.

Areas of audit focus

Our Outline Audit Plan identified key areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error	We have not identified any: ▸ material weaknesses in controls or evidence of material management override; ▸ instances of inappropriate judgements being applied; or ▸ other transactions during our audit which appeared unusual or outside the Authority's normal course of business. This work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to you attention.
Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	We have not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.
Investment Property Valuations	We have completed our work in response to this risk including the work by our valuations specialist (EY Real Estates). We have not identified any material valuation differences. We did identify a judgemental audit difference of £123,000 which the Authority consider to be immaterial and based on a estimated difference calculated by EY and therefore is not adjusting the final accounts. We have identified a need for the Authority to improve its approach to the valuation of its investment property. We have provided further details on page 14. We noted that the draft accounts did not disclose the material valuation uncertainty reported by the Authority's valuer in their valuation report. This will need to be updated in the final accounts. We have included a paragraph in the audit opinion to emphasis the disclosure of the material uncertainty.

Executive Summary

Areas of audit focus (continued)

Other area of audit focus	Findings & conclusions
Other Land and Buildings valuations	Our work is complete and we have not identified any material valuation differences. However, we have identified a need for the Authority to improve its approach to the valuation of its property, plant and equipment. We have provided further details on page 14. We noted that the draft accounts did not disclose the material valuation uncertainty reported by the Authority's valuer in their valuation report. This will need to be updated in the final accounts. We have included a paragraph in the audit opinion to emphasis the disclosure of the material uncertainty.
Pension Liability Valuation & other pension disclosures	Our work is complete and subject to final review. Like other authorities, the Authority re-engaged its actuary to update pension asset values and the estimated impacts of the McCloud and Guaranteed Minimum Pension (GMP) rulings on the pension liability. The Authority has determined that the revised pension liability increases by £673,000. The Authority has not amended the pension liability for the impact of the Goodwin ruling, estimating that this would increase the liability by approximately £130,000 and is immaterial.
Business rates appeal provision	Our work is complete and we have no matters to report.
Going concern	Our work is outstanding as we are yet to receive the Authority's updated going concern assessment and disclosure. Once received we will consider the robustness of the assessment and appropriateness of the disclosure. We will update the Committee verbally at the 27 January 2021 meeting.
Prior Period Adjustments (PPAs)	The Authority has accounted for two PPAs. We have reviewed the supporting working papers for the one related to NNDR but await the full set of supporting working papers for the Council Tax PPA. We also need to review the final accounts to confirm that the PPAs have been correctly reflected. In addition, we need to complete our internal EY consultation process for PPAs.

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 your attention.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed 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 statement.

However, we have identified a need for the Authority to improve the way it revalues its property, plant and equipment and investment properties. We provide further details on page 14 and recommendations in Section 7.

In addition, in performing procedures on related party transactions we identified that the Authority was unable to provide the relevant returns from 8 Members and 1 Officer to support the completeness and accuracy of the related party disclosure. Whilst we were able to carry out alternative procedures to obtain assurance over the disclosure in the accounts, we include in Section 7 a recommendation for ensuring that all Member and Officer returns are obtained to support the related party disclosure.

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 Outline Audit Plan we did not identify any significant risk to our value for money conclusion.

After the 31 March 2020 year end we were informed by the Authority that due to staffing issues within the internal audit team, additionally impacted by Covid-19, the Authority did not have in place an appropriate provision of internal audit for the last quarter of the financial year. As a result, we have included an except for value for money conclusion in the audit report at Section 3. We provide further details of the value for money conclusion in Section 5.

Other reporting issues

We have reviewed the information presented in the draft Annual Governance Statement (AGS) for consistency with our knowledge of the Authority and against the relevant CIPFA requirements. In the previous year we reported that the format and content of the Statement needed to be improved to ensure that it included all the expected requirements. Whilst there is no template AGS for local authorities, the CIPFA Code does specify requirements that need to be met. We identified several areas of potential non-compliance with the Code requirements and provided detailed feedback to the Authority. We have yet to receive an updated AGS for review. We will provide a verbal update to the Committee on this matter.

Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 8 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the 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.

As part of our work to identify fraud risks during the planning stages, we identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. These are set out on the following page.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Inquired about the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.

To address the residual risk of management override we:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- Assessed key accounting estimates for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions

What are our conclusions?

We have not identified any

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- other transactions during our audit which appeared unusual or outside the Authority's normal course of business

However, this work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to your attention.

Significant Risk

Significant risk

Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS) *

What is the risk?

The Authority, like other authorities, is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure including Revenue Expenditure funded from Capital Under Statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account. This could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What judgements are we focused on?

We focussed on whether capital expenditure and expenditure accounted for as REFCUS had been correctly classified.

What did we do?

As capital expenditure and REFCUS were material to the financial statements, we undertook additional procedures to address the specific risk we have identified.

This included:

- Testing samples of capital expenditure and Revenue Expenditure Funded from Capital Under Statute to a higher level to verify that revenue costs had not been inappropriately capitalised.
- Identification of the controls the Authority has in place to prevent incorrect capitalisation of revenue expenditure.
- Consideration of the effectiveness of management's controls designed to address the risk.
- Testing year end journals which move expenditure from revenue to capital.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.

Significant Risk

Significant risk

Investment Property Valuations

What is the risk?

The Authority's investment property portfolio is a material balance (£54.9m at 31 March 2020) disclosed on the Authority's balance sheet.

The Royal Institution of Chartered Surveyors (RICS) issued guidance to valuers following the Covid-19 pandemic that there likely exists a material uncertainty surrounding property valuations in the 2019-20 period. This guidance followed uncertainties in the economic climate and the impact upon commercial market rents. Such events may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties. This leads to a risk of material uncertainty in the valuations of Investment Property within the Authority's financial statements.

What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. In particular assets with reference to fair value/market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

What did we do?

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (for example market rents and other market information).
- Engaged EY Real Estate as our internal specialists to review the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties and other assets valued using market information. We apply special consideration to any disclosures or disclaimers resulting from Covid-19.
- Test accounting entries have been correctly processed in the financial statements.
- Consider the impact of any material uncertainty reported by the Authority's valuers on our audit report.

What are our conclusions?

- Our work in response to this risk including the work by our valuations specialist (EY Real Estates) is complete.
- We have not identified any material valuation differences.
- We noted that the draft accounts did not disclose the material valuation uncertainty reported by the Authority's valuer in their valuation report. This will need to be updated in the final accounts and we are including a paragraph in the audit opinion to emphasise this disclosure.
- We also identified inadequacies in the Authority's arrangements for valuing its investment properties. We have included more details on page 14.

Significant Risk

Areas of Audit Focus

Other Land and Buildings valuations

Other Land and Buildings (OLB) represents a significant balance in the Authority's accounts (£58.3m at 31 March 2020) and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

As the Authority's OLB are significant, and the outputs from its valuer are subject to estimation, there is a higher inherent risk because balances may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. We have:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price/sq metre);
- Considered whether valuations are carried out with sufficient frequency to ensure that carrying values are not materially different from market value.
- Considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered appropriateness of changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries have been correctly processed in the financial statements; and
- Considered the impact of any material uncertainty reported by the Authority's valuers on our audit report.

Findings and conclusions

Our work in this area is complete. We were required to input significantly more time than expected to complete procedures due largely to inadequacies in the Authority's arrangements for valuing its other land and buildings (and investment properties). We identified inadequacies in respect of:

1. The timing of the valuation report to support the preparation of the accounts – the valuation report was only obtained by the Authority in the latter stages of the accounts preparation timetable.
2. As a consequence of issue 1, there was no management review of the valuation report. In preparing draft accounts the Authority is asserting (amongst other things) that its assets are recognised at fair value. We identified several unexpected movements in the value of assets which we were then required to challenge the Authority and its valuer to understand the rationale for the movements. We used other comparative information and valuation indices to challenge the valuations, establish that assumptions were reasonable and confirm the unexpected movements. These audit processes took significantly longer than anticipated.
3. The extent of clerical errors we identified in the valuer's workings – this required significant input to clarify information and understand the detail within the valuation report. Whilst this additional time did not result in misstatements, because of item 2 above, the inputs were required to gain assurance over the work of the valuer.

We also note that the draft accounts did not disclose the material valuation uncertainty reported by the Authority's valuer in their valuation report. This will need to be updated in the final accounts. Because the material uncertainty impacts a significant portion of the Authority's property assets, we will be emphasising the updated disclosure in the audit opinion. This is subject to internal EY consultation.

Areas of Audit Focus

Pension Liability Valuation

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

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. In the draft accounts at 31 March 2020 this totalled £65 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. 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 2019/20 there may be an impact of Covid-19 on pension asset values as at 31 March 2020.

We have:

- Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire District Council;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) 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 considered relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Findings and conclusions

Our work in this regard is complete but still subject to review.

- The Authority re-engaged its actuary to update pension asset values and the estimated impacts of the McCloud and Guaranteed Minimum Pension (GMP) rulings on the pension liability. We expect the pension liability in the final accounts to increase by £673,000 as a result of this amendment.
- The Authority has considered the impact of the Goodwin ruling but deemed the estimated increase in the liability of approximately £130,000 to be immaterial. This is shown as an uncorrected audit difference in Section 4.

We have no other matters to report to date.

Areas of Audit Focus

Other Areas of Audit Focus – Business Rates Appeals Provision

Billing Authorities such as Huntingdonshire District Council are required to account for NDR on a full accrual basis. This requires Billing Authorities to consider establishing a provision under IAS 37 in respect of the potential adverse impact of successful appeals against valuations.

The appeals provision for Authority is material in 2019/20 at £4.8 million. We therefore raised this other area of audit focus in our 2019/20 audit planning report.

The calculation of the appeal provision is an estimation which requires management to make judgements around the potential future liability of the Authority. This includes assessing the historic level of successful appeals and estimating the number of future claims and their value. We therefore deem this to be a higher risk estimate due to its size and complexity.

Our approach has focused on:

- Reviewing the Authority's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37;
- Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and
- Reviewing the completeness of the provision.

Findings and conclusions

We were satisfied with the reasonableness of the Authority's approach to determining the business rates appeals provision and our audit procedures above have not identified any material differences in the financial statements.

Going concern disclosure

Covid-19 created a number of financial pressures throughout Local Government. For the Authority its other sources of income such as investment income and car parking are being adversely impacted. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

Findings and conclusions

Our work in this regard is outstanding as we are yet to receive the Authority's updated going concern assessment. Once received we have received the Authority's assessment we will consider the robustness of the assessment in light of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

Following our review of the assessment we will determine whether we need to add an emphasis of matter paragraph to our opinion drawing the readers attention to the going concern disclosures made by the Authority.

We will update the Committee verbally should any matters arise from our review of the Authority's assessment that we wish to bring to you attention.

Areas of Audit Focus

Prior period adjustments (PPAs)

The Authority has identified a need to make two PPAs, both relating to the Collection Fund.

NNDR related

At the end of the prior year audit the Authority highlighted an uncertainty relating to National Non-Domestic Rates (NNDR) which MHCLG had identified dating back to 2015/16. At that stage the Authority did not have sufficient information to quantify the impact on the accounts. During 2019/20 the Finance Manager has worked through the issues and identified historic errors dating back to 2013/14 relating to NNDR and the treatment of Enterprise Zone reliefs, small business reliefs and bad debt provisions. These errors impact the Collection Fund and other primary statements for 2019/20 and the prior year comparators. The Finance Manager has provided the supporting working papers and we ae satisfied with the adjustments identified.

Council tax related

In the latter part of 2020, the Finance Manager identified another historic issue in relation to the Collection Fund, this time relating to Council Tax and the treatment of the Ministry of Defence council tax payments in lieu. These errors were also historic, dating back to 2015/16, and also impact the Collection Fund and other primary statements for 2019/20 and the prior year comparators.
We have yet to receive the Authority's supporting working papers to outline the adjustments being proposed.

Findings and conclusions

We have reviewed the Authority's working papers in support of the NNDR related PPA and are satisfied that the basis of making the PPA is appropriate. We have discussed the Council tax related PPA with the Finance Manager and been provided with some working supporting working papers. We are satisfied that a PPA is required but have yet to receive all the supporting working papers to consider the detailed adjustments being proposed.

We will complete our review of the PPAs on receipt of all the supporting working papers and assessing the final accounts to ensure that the PPA adjustments are appropriately reflected.

03 Audit Report

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Huntingdonshire District COUNCIL

Opinion

We have audited the financial statements of Huntingdonshire District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes 1 to 40 to the main financial statements; and
- Collection Fund Statement and notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Huntingdonshire District Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty, Note 14 – Property, Plant and Equipment and Note 15 – Investment Properties of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to specific property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Manager's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Finance Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

Internal audit provision

Between January and March 2020 the Authority did not have in place an effective internal audit service due to a combination of staff retirement, sickness absence and the Authority's decision to redeploy internal staff onto Covid-19 related activities. As a result, the Authority did not have in place for the full financial year the proper arrangements an effective internal audit service to evaluate the effectiveness of its risk management, control and governance processes.

This issue is evidence of a weakness in proper arrangements for making informed decisions through maintaining an effective system of internal control.

Qualified conclusion [except for]

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Huntingdonshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Finance Manager

As explained more fully in the Statement of the Responsibilities set out on page xiii, the Finance Manager is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Finance Manager is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Huntingdonshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Huntingdonshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Huntingdonshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Huntingdonshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Huntingdonshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
Date

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.

We have included the significant audit differences that the Authority has adjusted for on page 6.

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Corporate Governance Committee and provided within the Letter of Representation:

Uncorrected misstatements Council 31 March 2020	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
	£'000	£'000	£'000	£'000	£'000
Historic differences in the cash and bank reconciliation	256	(256)			
Estimated difference on the value of investment properties	(123)		123		
Impact of Goodwin on defined benefit pension liability	130				(130)
Total uncorrected audit differences	**263**	**(256)**	**123**		**(130)**

Management have determined not to amend the statements for these audit differences on the basis of materiality.

05 Value for Money

Value for Money

Background

We are required to consider whether the Authority 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 (VFM) 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 (NAO). 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 VFM assessment

On 16 April 2020 the NAO published an update to auditor guidance in relation to the 2019/20 VFM assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 VFM assessment auditors should consider local authorities responses to Covid-19 only as far as it relates to the 2019-20 financial year and 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.

Subject to Manager and Associate Partner review, we have identified no such evidence for the Authority and therefore identified no significant VFM risk associated to Covid-19.

Overall conclusion

In the Outline Audit Plan drafted in June 2020, we reported that we did not identify any significant risks around the VFM criteria.
However, soon after drafting the report the Authority informed us of the gap in the provision of internal audit during the final quarter of the 2019/20 financial year. We gave a verbal update to the July 2020 Corporate Governance Committee that the gap in internal audit provision represented a weakness in VFM arrangements. We outline on page 29 our consideration of this issue and its impact on the overall VFM conclusion.
In summary, we are issuing a qualified VFM conclusion on the basis that the Authority had in place for 2019/20 the expected arrangements to secure economy, efficiency and effectiveness in your use of resources except for the proper arrangements for making informed decisions through maintaining an effective system of internal control due to the gap in the provision of internal audit for the final quarter of 2019/20.
We include the except for qualification in the audit report at Section 3.

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 risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?
Impact of a gap in internal audit provision on an effective system of internal control In June 2020 the Authority informed us that due largely to the sickness absence of a member of the internal audit team there was a gap in the provision of internal audit since December 2019. This was compounded from mid to late March as the other internal audit team members were redeployed by the Authority on essential Covid-19 related activities. Under the Accounts and Audit Regulations 2015, the Authority is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. An effective internal audit service is required to enable the Authority to make informed decisions through maintaining an effective system of internal control.	Taking informed decisions

Findings and conclusions

The draft Annual Governance Statement (draft) did not reflect the gap in the provision of an effective internal audit service. The draft AGS also did not include a Head of Internal Audit (HOIA) opinion, due to the gap in internal audit provision.
Following audit flagging the issue in June 2020, the Finance Manager appointed an interim Head of Internal Audit who then completed a HOIA opinion for 2019/20 (adequate assurance) which is reflected in a revised AGS.
The revised AGS also refers to the gap in internal audit provision.

As a result of the gap in internal audit provision, for 2019/20 there has been a weakness in the arrangements the Authority has had in place to secure economy, efficiency and effectiveness in the use of resources in respect of the proper arrangements for making informed decisions through maintaining an effective system of internal control due. We reflect this as an 'except for' VFM conclusion in the audit report in Section 3.

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.

We did not identify any inconsistencies between the narrative report (front end of the statements) and the financial statements. We will verbally update the Committee should any matters arise from our review of the revised statements.

We reviewed the draft version of the Annual Governance Statement and identified some issues with compliance with CIPFA requirements and shared details with the Authority. We have yet to see the amended Annual Governance Statement to review for completeness. We include a recommendation in Section 7 to ensure that the AGS is drafted in compliance with the CIPFA requirements.

We will provide the Committee with a verbal update.

Whole of Government Accounts

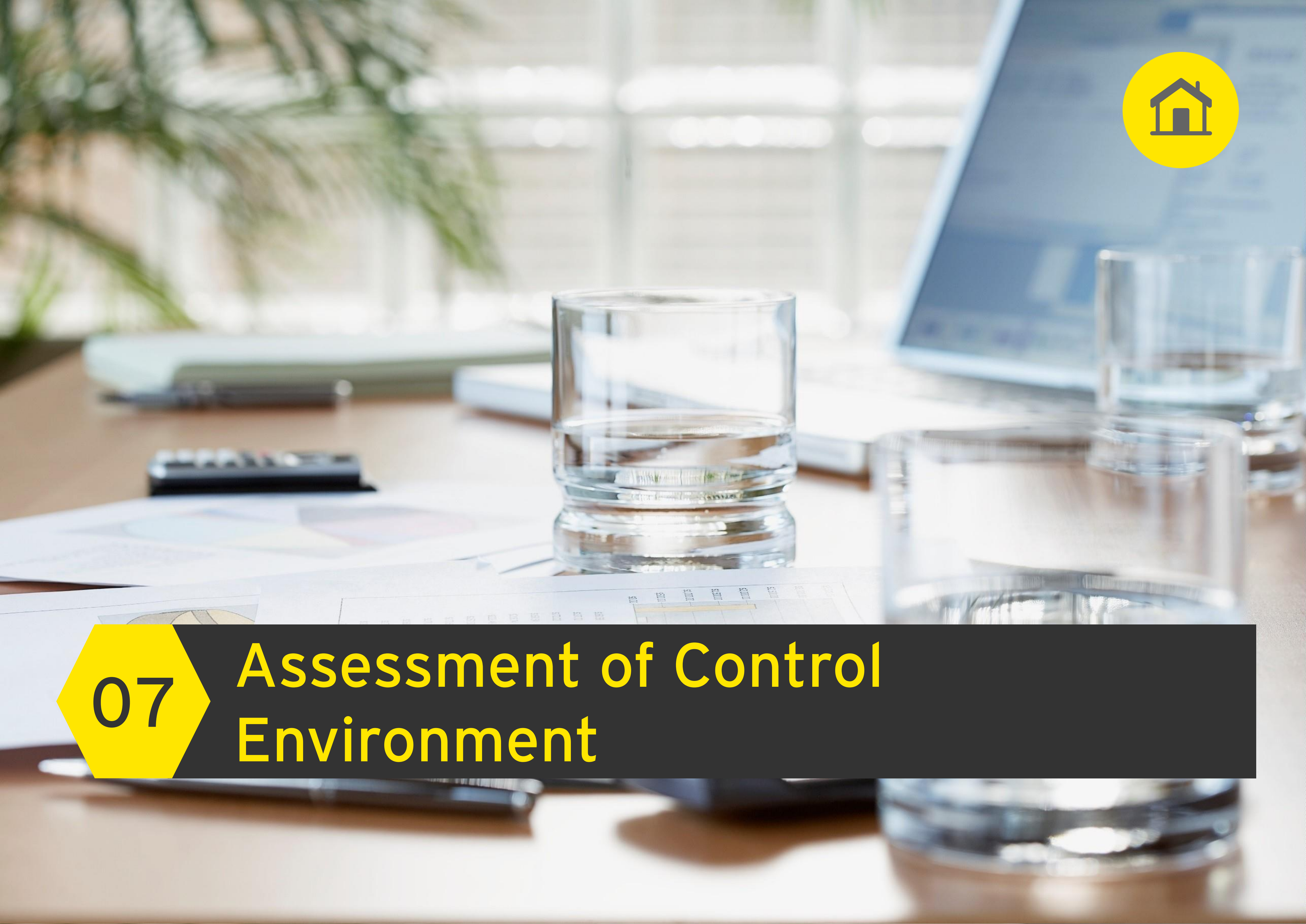
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The Authority is below the threshold for requiring audit procedures on its WGA submission.

We have no issues to raise.

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"). 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.

We have had no reason to exercise these duties.



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.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

We have identified scope for improvements in three areas of accounts preparation:

<u>Asset valuations</u>
As outlined on page 14, the Authority's process for the valuation of its investment properties and other land and buildings did not include management review of the valuation report and did not provide the Authority with timely and good quality information.
Recommendation: The Authority should consider the processes it currently employs to support the valuation of its investment properties and other land and buildings.

<u>Related party disclosures and Member/Officer returns</u>
As outlined on page 9, we identified that the Authority had not obtained all the returns from Members and Officers to supports its assertion that the related party disclosures were complete and accurate.
Recommendation: The Authority should ensure it obtains all responses to all its requests to Members and Officers for declarations of interests.

<u>Errors in exit packages and officer remuneration disclosure notes</u>
As outlined on page 6, we identified errors in the two disclosure notes relating to exit packages and officer remuneration – two sensitive disclosures.
Recommendation: The Authority should introduce improve quality assurance processes to ensure the accuracy and completeness of these two sensitive disclosures before completing and publishing the draft accounts.

08 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our Outline Audit Plan dated 2 June 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 which you should review, as well as us. It is important that you and your Corporate Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Corporate Governance Committee on 27 January 2021.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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.
There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf 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.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

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

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Outline Audit Plan and subsequent reporting to the Corporate Governance Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£	£
Code work – scale fee	40,024	40,024	40,024	44,068
Additional code work:				
• Impact of 50% performance materiality	-	-	-	12,500
• New General Ledger	-	-	-	17,450
• Involvement of EY Real Estates	4,900	2,000-5,000	-	2,500
• Additional audit overruns and delays (Note 1)	TBC	-	-	3,100
• Going concern disclosure (Note 2)	TBC	-	-	-
• Auditing the PPAs (Note 3)	TBC	1,000-2,000	-	-
• EY consultations on auditor report (Note 4)	TBC	TBC	-	-
• VFM conclusion qualification (note 5)	TBC	-	-	-
Total audit	**TBC**	**TBC**	**40,992**	**76,542**
Housing Benefit Agreed Upon Procedures	TBC	12,400	0	23,900
Total other non-audit services	TBC	12,400	N/A	23,900
Total fees	TBC	-	40,992	**100,442**

Notes: We will quantify our final fees on conclusion of the audit, provide supporting information and seek agreement with the Finance Manager and then approval by PSAA.

1. *We have incurred a significant level of overruns due to the protracted nature of the audit and weaknesses in some accounts preparation arrangements.*
2. *We will be carrying out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.*
3. *We have had to audit the Authority's two (originally one) PPAs.*
4. *To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate. This includes out additional work in response to the material uncertainty reported by the Authority's valuer on investment property and OLB valuations. This has led to an emphasis of matter paragraph in the audit report.*
5. *We have had to respond to the VFM conclusion weakness and issue an except for qualification.*

Independence

New UK Independence Standards

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. 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 UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- 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 will apply for otherwise prohibited non-audit services that are 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 Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit 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. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

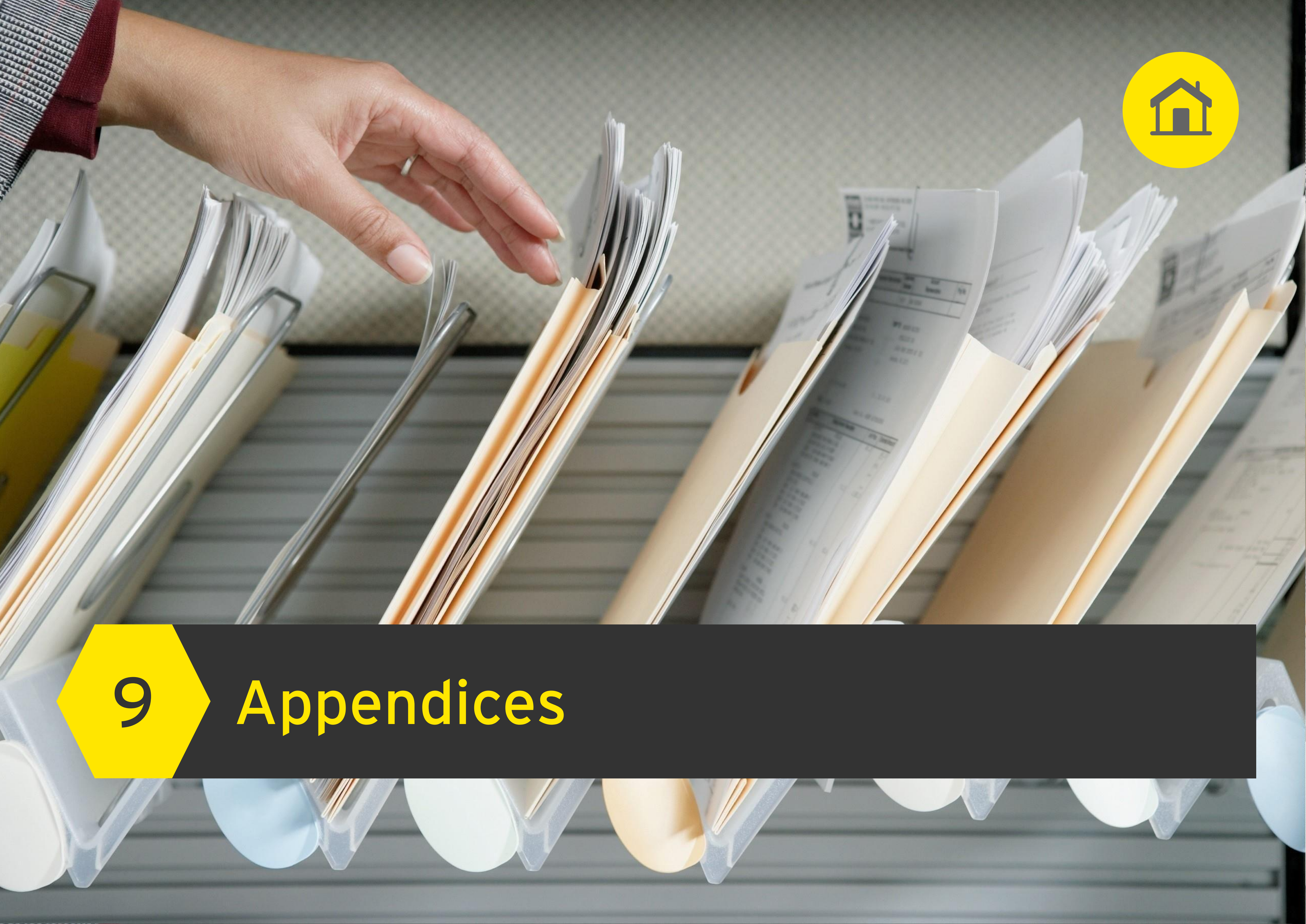
Next Steps

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

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



9 Appendices

Required communications with the Corporate Governance 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 Corporate 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.	Outline Audit Plan - June 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline Audit Plan - June 2020
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 – January 2021

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: ▸ 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	No conditions or events were identified, either individually or together to raise any doubt about Huntingdonshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – January 2021
Subsequent events	▸ Enquiry of the Corporate Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Fraud	▸ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Corporate Governance Committee responsibility.	Audit Results Report – January 2021

Appendix A

		Our Reporting to you
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: ▸ 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 Authority	Audit Results Report – January 2021
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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Outline Audit Plan - June 2020 and Audit Results Report – January 2021

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Corporate Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▸ 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 ▸ Enquiry of the Corporate 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 Corporate Governance Committee may be aware of.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – January 2021

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
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.	Outline Audit Plan - June 2020 and Audit Results Report – January 2021
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – January 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – January 2021
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – January 2021
Fee Reporting	▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Outline Audit Plan - June 2020 and Audit Results Report – January 2021

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