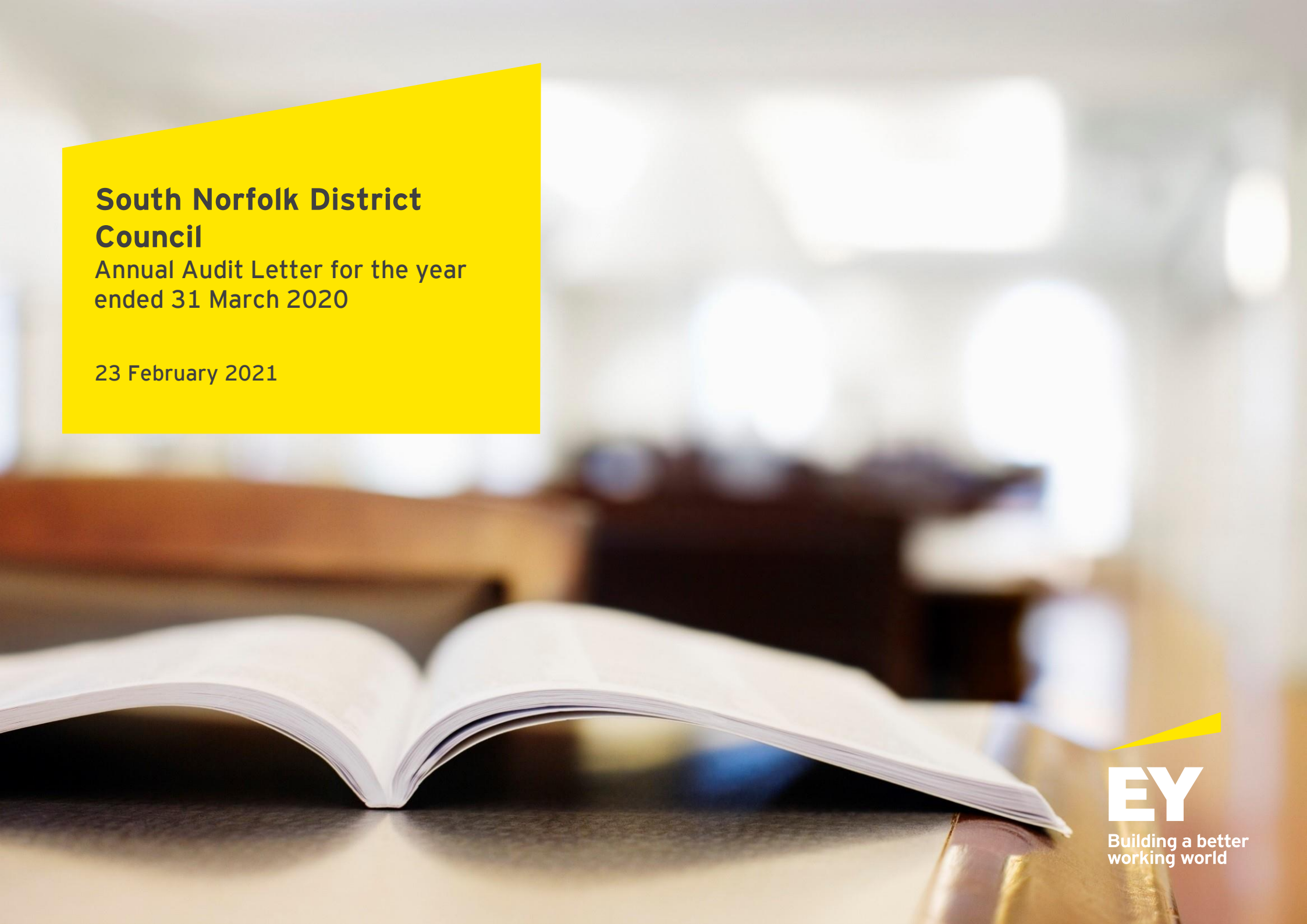
South Norfolk District Council

Annual Audit Letter for the year ended 31 March 2020

23 February 2021



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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 Annual Audit Letter 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 Hywel 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to South Norfolk District Council following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We updated our audit procedures to take account of the following issues:

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment and Investment Property	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, 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 over the valuations in place at the 31 March 2020. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's external valuer.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans required revision to take account of Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by Management's assessment with particular reference to Covid-19.
Impact on the scope of our audit	
► 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 Council's systems because of remote working protocols. 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.
► Consultation requirements	Additional EY consultation requirements were required concerning the impact on auditor reports.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published within the Statement of Accounts was consistent with the financial statements.
► Concluding on the s arrangements for securing economy, efficiency and effectiveness	We concluded that the Council had put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 28 January 2021, with an update issued on the 15 February 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on the 17 February 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work and, in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic, their collaborative approach which enabled us to complete the 2019/20 audit by working remotely.

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 February 2020, with an update Addendum issued on the 14 May 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on the 17 February 2021.

Our detailed findings were reported to the 26 November 2020 Audit Committee. The key issues identified as part of our audit were as follows:

Risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Council.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Council.
Incorrect apportionment of recharged expenditure overheads between South Norfolk District Council and Broadland District Council	We did not identify any matters to report to the Council.
Valuation of Property, Plant and Equipment	We did not identify and misstatements to report to the Council. The Council appropriately disclosed a material valuation uncertainty paragraph included by its valuer in their valuation report.
Pension liability	Following the publication of the HM Treasury consultation on the remedy for the McCloud judgement in July 2020, together with updated assumptions for investment returns within the Norfolk Pension Fund, the Council obtained a revised actuarial reports from the Pension Fund Actuary. This showed an reduction in the Council's pension fund liability of £0.349 million, for which the financial statements were adjusted.
Omission or understatement of NDR appeals provision	We did not identify any matters to report to the Council.
Going Concern Disclosures	The Council assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.237 million (2018/19: £1.224 million), which is 2% of gross expenditure on the provision of Services. We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £65,000 (2018/19: £61,200)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data and approved amounts applying a reduced materiality level of £5,000 in line with bandings disclosed in the financial statements.
- Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence applying a reduced materiality level equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

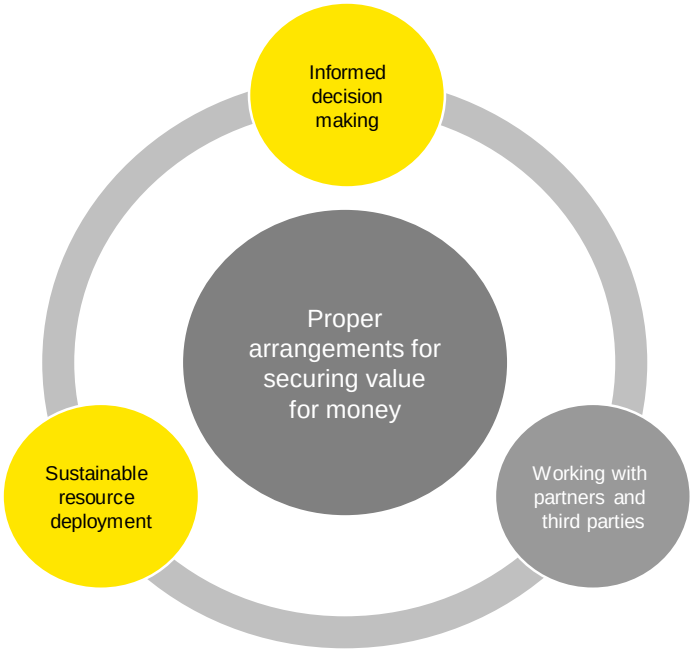
Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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.

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 Council's 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.



We did not identify any significant risks in relation to these criteria.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, and working with partner and other third parties.

We therefore issued an unqualified Value for Money conclusion on the 17 February 2021.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. The Council is below the specified audit threshold of £500 million.

Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We did not identify any issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee dated the 28 January 2021. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Council or the Audit Committee.

Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

Council responsibilities for value for money
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal. As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code
Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The specified reporting criteria are: • Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services. • Governance - How the Council ensures that it makes informed decisions and properly manages its risks. • Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services. Continued

Focused on your future

Reporting on VFM

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It was proposed that IFRS 16 (Leases) would be applicable for Local Authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for Local Authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. However in response to the ongoing pandemic and its pressures on council finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022. CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness. The announcement is available on CIPFA's website.	There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Section 7

Audit Fees

Audit Fees

In the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. Having just concluded our audit procedures, we will now determine the quantum of the additional work that was required and discuss this with the Assistant Director of Finance, before seeking formal approval from the PSAA Ltd. We will report under a separate letter the final audit fees.

Description	Final Fee 2019/20 £'s	Planned Fee 2019/20 £'s	Scale Fee 2019/20 £'s	Final Fee 2018/19 £'s
Total Audit Fee – Code work	39,231	39,231	39,231	46,474
Changes in work required to address professional and regulatory requirements and scope associated with risk	29,165	29,165		
Revised Proposed Scale Fee (see Note 1)	**68,396**	**68,396**	**39,231**	**46,474**
Additional work:				
• Assessment of Going Concern in light of Covid-19 including consultation process and documentation and the reassessment of materiality and identification of any further audit risks (including in relation to VFM)	TBC			
• Increased Property, Plant and Equipment and Investment Property procedures to consider, challenge and respond to the basis of the valuation, including the RICS material uncertainty clause, including the use of specialists from EY Real Estate	TBC			
• Increased IAS 19 procedures to assess the impact of McCloud/Goodwin and revised asset valuations on the IAS 19 liability	TBC			
• Additional risk in relation to recharges between South Norfolk and Broadland Council's.	TBC			
Total Audit Fee		**68,396**	**39,231**	**46,474**

Note 1 - For 2019/20, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Plan. Our proposed increase has been discussed with management and is with PSAA for determination.

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