AGENDA ITEM NO. 8

AUDIT COMMITTEE

24th November 2020

Subject: EY Audit Results Report (UK and Ireland) 260 for the year ended 31 March 2020

1. Purpose of Report

This report summarises the results of the work completed to date for the 2019/20 financial year with regard to:

- the opinion on the Statement of Accounts
- the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

2. Background

A senior representative of EY (the Council's appointed external auditors) will present the key matters from this report to the Audit Committee and then respond to any questions of clarification by Members.

3. Corporate Implications

(a) Financial Implications

The planned fee to the Council for the Code Audit for 2019/20 was reported in the Planning Report in May as £43,424, however the auditors have reported an increase of £1,630 to £44,954, as a result of additional work required on the value for money risks. The final proposed fee to address the Covid-19 related risks has yet to be quantified, but the auditors will discuss their proposal with management and once agreed will submit to PSAA for approval.

No issues have arisen from the audit to date that have a financial consequence for the Council.

(b) Legal Implications

The Council are required to:

- publish the financial statements by 30th November
- have an external audit of its activities that complies with the requirements of the National Audit Office's Code of Audit Practice (the Code)
- receive a report from the external auditor on the work completed under the provisions of the International Auditing Standard 260 prior to them giving their opinion on the financial statements.

By considering this report, the Committee will enable the delivery of these statutory requirements.

(c) Human Resources and Equality Implications

Human Resources

None

Equality Implications

None.

(d) IT and Asset Management Implications

None

4. Links to Council's Priorities and Objectives

Audit contributes to the delivery of all the Council's Priorities and Objectives.

5. Timescale for Implementation and Risk Factors

The financial statements need to be published by the 30th November, and the audit opinion on them delivered by then to enable the publication to be of the audited, rather than unaudited, financial statements. The external auditor must report to those charged with governance before the audit opinion is given. By presenting this report to Committee, this requirement has been met.

There are currently no significant issues arising from this report therefore there are no risks to highlight. However until the audit is complete it is possible that further issues may arise.

6. Conclusion

None.

Recommendation

The Audit Committee:

- considers and notes the external auditors Audit Results Report 2019/20
- approves the Letter of Representation contained within the report.

Background Papers

The Council's Financial Statements for the year ended 31 March 2020

Attachments

EY Audit Results Report 2019/20

Report Author: Debbie Hanson, Associate Partner, EY







Private and Confidential

Castle Point Borough Council Kiln Rd, Thundersley, Benfleet, SS7 1 TF

12 November 2020

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Castle Point Borough Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the accounts publication date of 30 November 2020. As set out in section 1, the Covid-19 pandemic has impacted the statements and our audit opinion. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit 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 Audit Committee meeting on 24 November 2020.

Yours faithfully

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.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. 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.





Scope update

In our May 2020 Audit Planning Report, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions and points to note

Changes to reporting timescales

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

Changes 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 £1.018 million (Audit Planning Report — £1.028 million). This results in updated performance materiality, at 75% of overall materiality, of £0.764m, and an updated threshold for reporting misstatements of £0.051m.

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

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

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform.

We will determine the impact on our audit fee from the additional procedures related to Covid-19 and discuss with the s151 officer at the conclusion of the audit.

Executive Summary

Status of the audit

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

- Testing to be completed on:
 - Minor disclosures and the Expenditure and Funding Analysis note
 - Short term debtors and creditors
 - Short term investments, where we are awaiting some confirmations
 - Property plant and equipment, council dwellings and investment properties, clearance of a small number of remaining queries
 - Council dwelling valuations, completion of testing on remaining properties from our sample
 - Reserves
- · Receipt of responses to our management assurance letters
- Completion of our review and consultation procedures on the Council's going concern assessment and disclosures
- Completion of our review and consultation procedures on the disclosures related to the valuer's material uncertainty disclosure regarding on valuation of land and buildings
- Clearance of queries arising from review by Associate Partner and Manager
- Completion of our final review processes on the financial statements
- Completion of subsequent events review to the date of the audit report
- Receipt of the signed management representation letter and financial statements

Audit differences

At the time of writing, there are no unadjusted or adjusted audit differences arising from our audit. However until work is complete, further amendments may arise.

We will update the Committee when our work has been finalised.



Areas of audit focus

Our Audit Planning Report identified significant risks and key areas of focus for our audit of Castle Point Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters in this report.

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

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

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.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified Development of the Local Plan and Knightswick Shopping Centre acquisition as significant risks.

We have completed our work to address these risks and have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Our observations on the risks we identified are documented in section 5 of this report.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Subject to the finalisation of the areas in the Status of Audit work section, we have no other matters to report.

Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 9 for our update on Independence.





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 and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

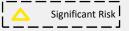
In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business





Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Authority has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Sample testing additions to property, plant and equipment, at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Extended our testing of items capitalised in the year by lowering our testing threshold and reviewing a larger random sample of capital additions below our testing threshold
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

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

Valuation of Knightswick **Shopping Centre**

What is the risk?

In 2019/20, the Council acquired Knightswick Shopping centre located in Canvey Island. The shopping centre has been revalued in line with the Council's valuation policies at £11.05 million as at 31st December 2019. The asset represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation of the asset. As the asset is significant in value, and the outputs from the valuer are subject to estimation, there is a significant risk that the valuation may be under/overstated or the associated accounting entries are incorrectly posted.

What judgements are we focused on?

Our work on the valuation of Knightswick Leisure Centre focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuation and of the key assumptions input into these valuations as at 31 March 2020. We also considered how the Council's valuer has addressed the impact of Covid-19 in the year-end valuation of this assets and their assessment of any impairment.

What did we do?

- Confirmed the classification of the asset as an operational asset rather than an investment property;
- Engaged our valuations specialist (EY Real Estates) to review the valuation of the shopping centre to verify the reasonableness of the valuation methodology applied and key assumptions used, particularly in relation to the impact of Covid-19 on the valuation;
- 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;
- Checked that the valuers report reconciles to Authority's fixed asset register;
- Tested the accounting entries and disclosures made within the Authority's financial statements to confirm these complied with relevant accounting standards and the Code, for example ensuring that any revaluation gains and losses have been accounted for in the revaluation reserve or charged to the income and expenditure account as appropriate;

What are our conclusions?

Our work on the valuation of the shopping centre is complete and did not identify any issues.

We are satisfied that the Shopping Centre is appropriately classified as an operational asset and valued on an appropriate basis and the valuation is materially accurate

We are also satisfied that the accounting entries in the financial statements related to this asset have been posted correctly





Significant risk

Valuation of investment properties

What is the risk?

The Council holds investment properties valued at £2.8 million as at 1 April 2019. These assets represent material balances in the Council's accounts and may be subject to valuation changes and impairments. The impact of Covid-19 is expected to be greatest for properties measured at Fair Value (i.e. investment properties) since rental income is expected to fall as tenants' default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. As these assets were valued at 1 April 2019 rather then the balance sheet date there is a risk that the values may be misstated.

What judgements are we focused on?

Our work on investment property valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations and the potential impact of Covid-19 on the year end valuations as at 31 March 2020.

What did we do?

- Assessed the classification of assets to ensure the correct classification and valuation basis had been applied;
- 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 a number of investment properties to confirm the values provided by the valuer were supportable and in line with expectations;
- Engaged our valuations specialist (EY Real Estates) to review a sample of the two highest value investment properties to verify the reasonableness of the valuation methodology applied and key assumptions used and the potential impact of Covid-19 on the year end values;
- Checked that the material uncertainly reported by the Authority's valuer in relation to values at 31 March 2020 was appropriately disclosed in the financial statements;
- Reconciled the valuers report to Authority's fixed asset register;
- Tested the accounting entries, ensuring these have been correctly processed in the financial statements.



Significant risk

Valuation of investment properties

What are our conclusions?

We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist (EY Real Estates). We are currently awaiting support for one property with total value of £165k where the value had increased by 70% to conclude our work in this areas. Our testing has covered £1.9 million of the £2.0 million balance as at 31 Match 2020.

Our main conclusions from the work we have completed are noted below:

- We are satisfied that the classification of assets is appropriate and therefore the appropriate valuation basis had been applied;
- We are satisfied that we can place reliance on the work performed by the Authority's valuer;
- Our valuations specialist review of two investment properties have confirmed the reasonableness of the valuation methodology applied and key assumptions used and the potential impact of Covid-19 on the year end values. We are satisfied that the valuations for the assets sampled are supportable;
- The Authority's external valuer disclosed a 'material uncertainty' in their year end valuation report in line with RICS guidance. The Authority appropriately disclosed the 'material uncertainty' in the statement of accounts.
- Based on the work we have undertaken we are satisfied that the carrying value of investment property disclosed in the financial statements is materially accurate.
- We have confirmed that the valuers report reconciles to Authority's fixed asset register and the associated accounting entries have been correctly processed in the financial statements.





Land & Buildings Valuation

The fair value of land and buildings represent significant balances in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances recorded in the balance sheet. As the outputs from the valuer are subject to estimation, there is a higher inherent risk that these balances may be under or 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.

What judgements are we focused on?

We focused on aspects of the land and buildings valuations which could have a material impact on the financial statements, which was primarily the assumptions and estimates used to calculate the valuations.

What did we do?

- Assessed the classification of assets to ensure the correct classification and valuation basis had been applied;
- Considered the work performed by the Authority's valuers, 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 size of the asset area to support valuations based on price per square metres);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considered any changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.





Land & Buildings Valuation

What are our conclusions

Our work on the valuation of land and buildings is substantially complete. Our conclusions based on the work we have completed to date are set out below:

- Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.
- We are satisfied that the classification of assets is appropriate and therefore the correct valuation basis had been applied;
- The expert valuers possess the relevant qualifications and experience, and undertook a review of a sample of the Authority's assets based on rolling programme.
- We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable.
- Our sample testing of key asset information used by the valuers in performing their valuation (for example size of the asset area to support valuations based on price per square metres) did not identify any issues, subject to the completion of our remaining testing;
- There have been no unexpected changes to useful economic lives as a result of the most recent valuation; and
- Accounting entries have been correctly processed in the financial statements.





Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £28.9 million.

The information disclosed is based on the IAS 19 report issued to the Council 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.

An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Essex Pension Fund, for example private equity investments where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.

What did we do?

- Liaised with the auditors of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to Castle Point Borough Council;
- Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Reviewed Essex County Council draft financial statements and compare the year end asset values with the estimate used by the actuary in producing the Council's IAS 19 report and considered the impact on the Council's pension fund liability and IAS19 disclosures;
- Assessed the results of the triennial valuation, including the assumptions used and the impact on the Council's pension liability;
- Engaged early with the Council, and their actuary, to understand any ongoing impact of the McCloud judgement and GMP rulings on the IAS19 liability;
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- Considered the nature and value of level 3 investments held by Essex Pension Fund and the proportion of the overall Fund relating to Castle Point in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2020.





Pension Liability Valuation

What are our findings and conclusions

We have received and reviewed the assurance from the Essex Pension Auditor. The assurance from the pension fund auditor includes reference to a Material Uncertainty having been reported against the value of property assets as at 31 March 2020, which the auditor anticipates referring to in an Emphasis of Matter Paragraph in our their Audit Opinion on the Pension Fund. We are satisfied that this does not have a material impact on the asset values or net liability reported in the Authorities accounts, based on the fact that directly held property assets represent only 6% of the Essex Pension Fund and Castle Point Council represents approximately 1.1% of the overall fund. No other issues were noted.

We have received and reviewed reports from the EY actuarial team. Based on these reports we are satisfied that the assumptions they have used are appropriate.

We have considered the IAS19 report and assessment obtained from the actuary and concluded that the impact of the change in asset values and the impact of the McCloud consultation and Goodwin ruling are not material.

The accounting entries and disclosures are in line with our expectations and the Code and agree to the IAS19 report.





Provisions Valuation (NNDR appeals & Bad Debt provision)

Provision	What we did	What we concluded
Each year the Council is required to estimate the liability arising from refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. New information is provided by the Valuation Office each year on successful and unsuccessful appeals to allow the Council to make a judgement on the provision required. The calculation of the provision is performed in house by the Council—it is open to judgement and relies on a number of assumptions.	 Reviewed the calculation of the business rates appeals provision and assessed the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37. Sample tested appeals included in the provision to determine that the rateable value is accurate and the provision is reasonable. Performed completeness testing over the VOA data used to calculate the provision. 	We have concluded our work in this area and have no issues to report.
Each year the Council makes an allowance for debts that may not be recovered. In 2019/20 this provision was £2.2million (2018/19: £1.97 million) representing 35% of the Council's short term debtors. In the current environment, we expect that additional provisions may need to be made to account for the economic difficulties some residents and suppliers may be facing as a result of Covid-19. The provision is open to judgement and estimation which needs to reflect the current economic uncertainty and we expect the provision will increase for the year ended 31 March 2020.	 Reviewed the calculation of the bad debt provision, and assessed the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37. Challenged management assumption, particularly where historic collection rates have been used as a prediction for future collectability. Compared provisions made in 2018/19 against provisions made in 2019/20 and obtained robust explanations for movements in provisions. Reviewed and assessed the accuracy and completeness of any disclosures related to estimation uncertainty in the accounts. 	We have concluded our work in this area and have no issues to report.



What is the risk/area of focus?

Going concern - assessment and disclosure

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

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. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states 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.

What we did?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. We also requested an enhanced disclosure in the financial statements regarding the basis of preparation of the accounts being on a going concern basis. Management provided us with both an enhanced assessment and updated disclosure.

Our approach has focused on:

- Reviewing the Narrative Report and Financial Statement disclosures in relation to the impact of Covid-19 and the preparation of the financial statements on a going concern basis;
- Discussing with the Authority the impact of Covid-19 on the Councils income and expenditure and future projections and challenging management's underlying assumptions;
- Establishing and challenging the process that has been undertaken for revising financial plans.
- Considering the impact on our audit report, including completing the EY consultation requirements.

At the time of writing this report, we are finalising our review of the Council's assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particularly around reductions in income from fees and charges and use of reserves.

We also need to formally complete our internal consultation to agree the wording of our auditor's report to ensure that it provides the appropriate assurance to the Authority and its stakeholders. We do not expect to include an emphasis of matter within our audit opinion in relation to the Authority's disclosure on going concern.





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 - Draft

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CASTLE POINT BOROUGH COUNCIL

Opinion

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

- Comprehensive Income and Expenditure Statement,
- · Movement in Reserves Statement,
- · Balance Sheet.
- Cash Flow Statement and the related notes 1 to [x],
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to [x], and
- Collection Fund and the related notes 1 to [x]

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 Castle Point Borough 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.



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

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 Strategic Director (Resources)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director (Resources) 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.

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 Strategic Director (Resources) 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

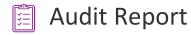
In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Castle Point Borough Council put in place proper arrangements to secure economy, 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.



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 Strategic Director (Resources)

As explained more fully in the Statement of the Responsibilities set out on page 19, the Strategic Director (Resources) 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 Strategic Director (Resources)r 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 Castle Point Borough 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 Castle Point Borough 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, Castle Point Borough 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.



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.

certification of completion of the audit

We certify that we have completed the audit of the accounts of Castle Point Borough 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

Date:

This report is made solely to the members of Castle Point Borough 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.

Debbie Hanson (Key Audit Partner) Ernst & Young LLP (Local Auditor) Luton





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.

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted above. An update will be provided to the Committee on any new differences identified subsequent to the release of this report.

Summary of adjusted differences

We did not identify any differences that have required adjustment through the course of our audit based on the work completed to date. The accounts have been well prepared with a very low level of error.

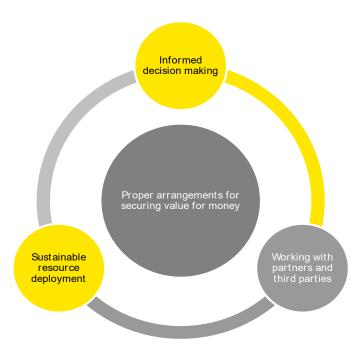
We did identify some presentational differences which management has agreed to adjustment.

Summary of unadjusted differences

We have not identified any misstatements to the financial statements and/or disclosures which were not corrected by management based on our work completed to date.



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money (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. We identified no such evidence for the Authority and therefore identified no significant VFM risk associated to Covid-19.

Overall conclusion

We identified two significant risks around these arrangements. The table below present our findings in response to the risk in our Audit Planning Report. We have not identified any new significant risks around these arrangements. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money

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?

Development of the Local Plan

In 2018/19 we identified the development of the Local Plan as a significant value for money risk following a letter received by the Council in November 2017 from the Secretary of State about lack of progress in adopting a local plan.

Through 2018/19 a new local plan was developed, but was not approved. In April 2019, the Local Government Association undertook a Planning Improvement Peer Challenge and highlighted the preparation of a new Local Plan as a key priority to provide a clear policy framework for decision making.

Since the peer review a new Local Plan has been developed and in October 2019 the Council agreed to proceed with the pre-submission Local Plan, however this is still subject to approval by the Secretary of State. This uncertainty around the Local Plan leads to increased risk of speculative development and planning by appeal, as well as not providing certainty for residents and businesses.

What arrangements did the risk affect?

Take informed decisions;

What did we do?

We have assessed the arrangements in place supporting these developments, focusing on:

- The actions being take to progress the adoption of a Local Plan
- The level of engagement with Members and the Secretary of State on this issue.



Value for money

Significant risk

What is our conclusion?

During 2019/20, Castle Point Council took appropriate actions to progress with the adoption of the Local Plan. It made progress on the Local Development Scheme (LDS), which required it to follow and implement Regulation 19. Throughout the process, the Council actively engaged with Members, the Secretary of State and the Ministry of Housing, Communities and Local Government (MHCLG) with regard to ways of moving towards the adoption of the Local Plan.

What are our findings?

The Council took a number of steps to progress the adoption of the Local Plan during the year.

July 2019 - The Council together with Cabinet agreed that the main objective for the current financial year was the successful public examination of the Local Plan, as a pre-cursor to its approval. The Council's Leader, Deputy Leader, Chief Executive and Head of Place and Policy, continued to engage with MHCLG to discuss the progress of the Local Plan. The discussions considered the progress of introducing Regulation 19 in October 2019. The Council was warned if this was not implemented, sanctions may be put in place and the Council would not have control over the development of the Local Plan. On 22 October 2019, the Council together with Cabinet approved the draft Local Plan and the updated Local Development Scheme (LDS), which required public consultation to start in December 2019.

December 2019 - The Local Plan was subject to public consultation. The Council therefore implemented Regulation 19 and was aligned to the LDS target.

February 2020 - The public consultation period ended and following this, the Council reviewed the results of the public consultation and was further considering the work required to improve soundness and legal compliance in light of the responses obtained from the consultation.

Value for Money

Value for Money Risks

What is the significant value for money risk?

Knightswick Shopping Centre acquisition

In October 2019, the Council purchased Knightswick Shopping Centre for a sum of £11.23 million which has largely been funded from borrowing. It is important that the Council undertook an appropriate risk and financial assessment and developed a robust business case in relation to this significant acquisition. It is also crucial that the decision was reviewed and approved in line with the Councils' constitution and governance arrangements to ensure accountability, responsibility, effective monitoring and authority for decision making.

What arrangements did the risk affect?

Take informed decisions;

What did we do?

We have assessed the arrangements in place supporting these developments, focusing on:

- The business case for the acquisition
- The financial and risk assessments undertaken
- Any external advice obtained in relation to the acquisition
- · Key decisions in purchasing the asset.
- Governance arrangements in place

What is our conclusion?

We have reviewed the process and documents relating to this decisions and established the decision-making arrangements in relation to the purchase of Knightswick Shopping Centre.

We concluded that appropriate arrangements were in place to support the decision to purchase the property.



Value for money

Significant risk

What are our findings?

- The Council undertook a detailed due diligence that supported its acquisition decision. Specifically, the t decision was supported by a financial assessment, prepared by the Council, showing the acquisition will generate sufficient funds to cover initial costs, future improvements and that it should also generate additional income.
- The Council made a successful bid for acquiring the Centre at £11,225,000. This bid was supported by an independent valuation undertaken by Colliers International Valuation UK LLP which estimated the market value to be £11,575,000 at 3 June 2019.
- The Council's decision was supported by a risk assessment based on external advice from three different sources. This advice covered general risks, tenancy risks and building risks, which all informed the Council's investment decision. In addition, external advice was obtained to support the Council's decision from a commercial, valuation, legal and health and safety perspective.
- The decision was reviewed and approved by Cabinet Members, including the Portfolio Holder for Finance, Policy and Resources, in September 2019, after consideration was given to the due diligence results and how the acquisition supports the Council's priorities. The approvals provided are in line with the Council's Constitution, which states that Cabinet is primarily responsible for taking decisions on resources. The Portfolio Holder, responsible for decisions on borrowing, investment and financing, also provided his approval for the investment.
- Our review indicates that on an ongoing basis, the Council actively monitored the activities of the Knightswick Shopping Centre over the period in question. This is evidenced by the Council putting in place a series of management arrangements, using Montagu Evans as a Management Agent and involving them in frequent and detailed discussions about the performance of the Centre.
- We note that a detailed business plan is not yet in place in relation to Knightswick Shopping Centre, although general performance was managed through continuous communication between Montagu Evans and the Council. For the financial year 2020/21, the Council should ensure a plan is in place to support the Council's ability to performance manage its contract with Montagu Evans, and compare actual and planned performance of the Centre.





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

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

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

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

We have reviewed the latest version of the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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.

As the Authority's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Castle Point Borough Council.

We will submit the required return in due course and in accordance with the deadline set.

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.





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.





Use of Data Analytics in the Audit

Data analytics — Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests;
 and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.







Confirmation

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

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit 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 Audit Committee on 24 November 2020.

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 for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.



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 confirm that we have not undertaken non-audit work outside the NAO Code requirements.

All fees exclude VAT	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee	43,324	43,324	43,324
Additional work on VFM risks	TBC	N/A	1,630
Investment property valuations significant risk	TBC	N/A	-
Additional fee to address Covid-19 related risks (Note 1)	TBC	N/A	-
Total audit (Note 1)	ТВС	43,324	44,954

Note 1: We have carried out additional work in response to the significant risks included in this report as well as to address the Covid-19 related risks also noted in this report. These are specific to the 2019/20 audit year and once quantified we will discuss with management and submit to PSAA for approval.



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 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf





Required communications with the Audit Committee

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

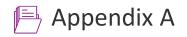
		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – May 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – May 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 – November 2020



		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 Castle Point Borough 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 – November 2020
Subsequent events	 Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	 Enquiries of the Audit 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 Audit Committee responsibility. 	Audit Results Report – November 2020



		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 – November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: 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	Audit Plan – May 2020 and Audit Results Report – November 2020



		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 Audit 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 Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. 	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 – November 2020



		Our Reporting to you
Required communications	What is reported?	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. 	Audit Plan – May 2020 and Audit Results Report – November 2020
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 – November 2020
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 – November 2020
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
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 	Audit Plan – May 2020 and Audit Results Report – November 2020

Appendix B

Management representation letter - draft

Management Rep Letter

[To be prepared on the entity's letterhead]

Xx November 2020

Debbie Hanson Associate Partner Ernst & Young LLP 400 Capability Green Luton LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Castle Point Borough Council ("the Council") for the year ended 31 March 2020. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Castle Point Borough Council as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

- We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
- The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate

financial statements in accordance with CIPFA LASAAC Code of Practice on Looal Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

B. Non-compliance with laws and regulations, including fraud

- We acknowledge that we are responsible to determine that the Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
- We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 4. We have no knowledge of any identified or suspected non-compliance with laws or regulations including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - · Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's business, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others

In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:



Management representation letter (continued)

Management Rep Letter

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
- We have made available to you all minutes of the meetings of Council and Performance, Audit and Governance Oversight held through the 1 April 2019 to the most recent meeting on the following date: 11 November 2020.
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2020 end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- 7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

- All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
- 3. We have recorded and/or disclosed, as appropriate, all liabilities related to

itigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

- 4. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
- 5. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows: Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

E. Subsequent Events

 There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

- We acknowledge our responsibility for the preparation of the other information.
 The other information comprises Narrative Report and Annual Governance Statement
- We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

 Note [N] to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Estimates

When we have identified following estimates as significant or higher risk:

- Pension Liability
- Property, Plant & Equipment / Investment Properties Valuation and Impairment
- iii. Provision for impairment of receivables
- iv. NDR Appeals Provision
- We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently

Management representation letter (continued)

Management Rep Letter

applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

- We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the operations on behalf of the Council.
- We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on 31 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
- We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. Retirement benefits

Qn the basis of the process established by us and having made appropriate
enquiries, we are satisfied that the actuarial assumptions underlying the scheme
liabilities are consistent with our knowledge of the business. All significant
retirement benefits and all settlements and curtailments have been identified and
properly accounted for.

J. Reserve

 We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Ownership of Assets

- Except for assets capitalised under finance leases, the Council has satisfactory
 title to all assets appearing in the balance sheet, and there are no liens or
 encumbrances on the Council's assets, nor has any asset been pledged as
 collaterals. All assets to which the Council has satisfactory title appear in the
 balance sheet.
- All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable, value.
- 4. There are no formal or informal compensating balance arrangements with any of

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and building assets and investment property and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect

to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists. Yours faithfully, Strategic Director (Resources) Chairman of the Audit Committee



Accounting and regulatory update

Accounting update

Since the date of our last report to the Authority, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on ELWA
IFRS 7/IFRS 9 – Financial Instruments (hedge accounting)	Amendments regarding pre-replacement issues in the context of the Interest Rate Benchmark (IBOR) reform	 Effective for periods beginning on or after 1 January 2020

Future accounting developments

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

Name	Summary of key measures	Impact on ELWA
IFRS 16	• The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	 ELWA should ensure that is prepared to gather information for comparatives and ensuring that systems are established for collating the information and reporting as appropriate.



Regulatory update

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

Name	Summary of key measures	Impact on ELWA
Code of Audit Practice 2020	 The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	 The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	 The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	 Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	 We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. To date we have not identified any non-audit services being provided to ELWA.

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