South Derbyshire District Council

Updated Audit planning report 2019/20

Year ended 31 March 2020

4 September 2020

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4 September 2020

Audit-Sub Committee
South Derbyshire District Council
Civic Way
Swadlincote
DE11 0AH

Dear Committee Members

Updated External Audit planning report 2019/20

This report seeks to provide the Audit-sub Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report tabled at the 16 March 2020 Audit-sub Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Following the coronavirus outbreak (Covid-19) in late March 2020, we have re-assessed our audit scope and strategy. We provide an update to the significant accounting and auditing matters, and audit approach outlined in the initial Audit Planning Report. Note there are no changes to our Value for Money risk assessment and planned strategy as previously communicated.

Section 1 - changes to audit risks
Section 2 – changes to audit strategy

Yours faithfully

Helen Henshaw
Associate Partner
For and on behalf of Ernst & Young LLP

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01 Audit risks

Our response to significant risks

Valuation of Property, plant and equipment (PPE) and Investment Property – assets valued on a market or fair value basis

(In the initial Audit Plan, this was an inherent risk)

Financial statement impact

We have identified that a significant risk applies specifically to assets valued on a market or fair value basis, including investment properties which are recorded at £6.3m in the balance sheet at 31 March 2020.

What is the risk?

The fair value of other land and buildings represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council engaged an external expert valuer who will apply a number of complex assumptions to these assets. They performed a full revaluation of the asset base for 2019/20. Annually assets are assessed to identify whether there is any indication of impairment.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk land and building assets may be under/overstated.

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

We previously identified Valuation of PPE as an Inherent audit risk in our initial Audit Plan, however, the risk has increased following Covid-19. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty, specifically to assets valued on a market or fair value basis.

What will we do?

Additional procedures in response to our significant risk include:

- We have instructed our internal specialist valuation team to review a sample covering the Council's re-assessment of valuations carried out pre-Covid-19 outbreak to assess the material accuracy of the values reported as at the 31/03/2020;
- Review the classification of assets and ensure the correct valuation methodology has been applied; and
- Ensure the appropriate disclosures have been made in the accounts concerning the material uncertainty.

Other areas of audit focus

Going Concern Disclosures

Financial statement impact

We previously identified Going Concern as an inherent risk in the Audit Plan, however, in light of covid-19, we consider that the risk has increased given the impact it has had on finances across the public sector.

We consider the risk applies to going concern and related disclosures in the financial statements.

What is the risk?

Going concern:
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.

We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

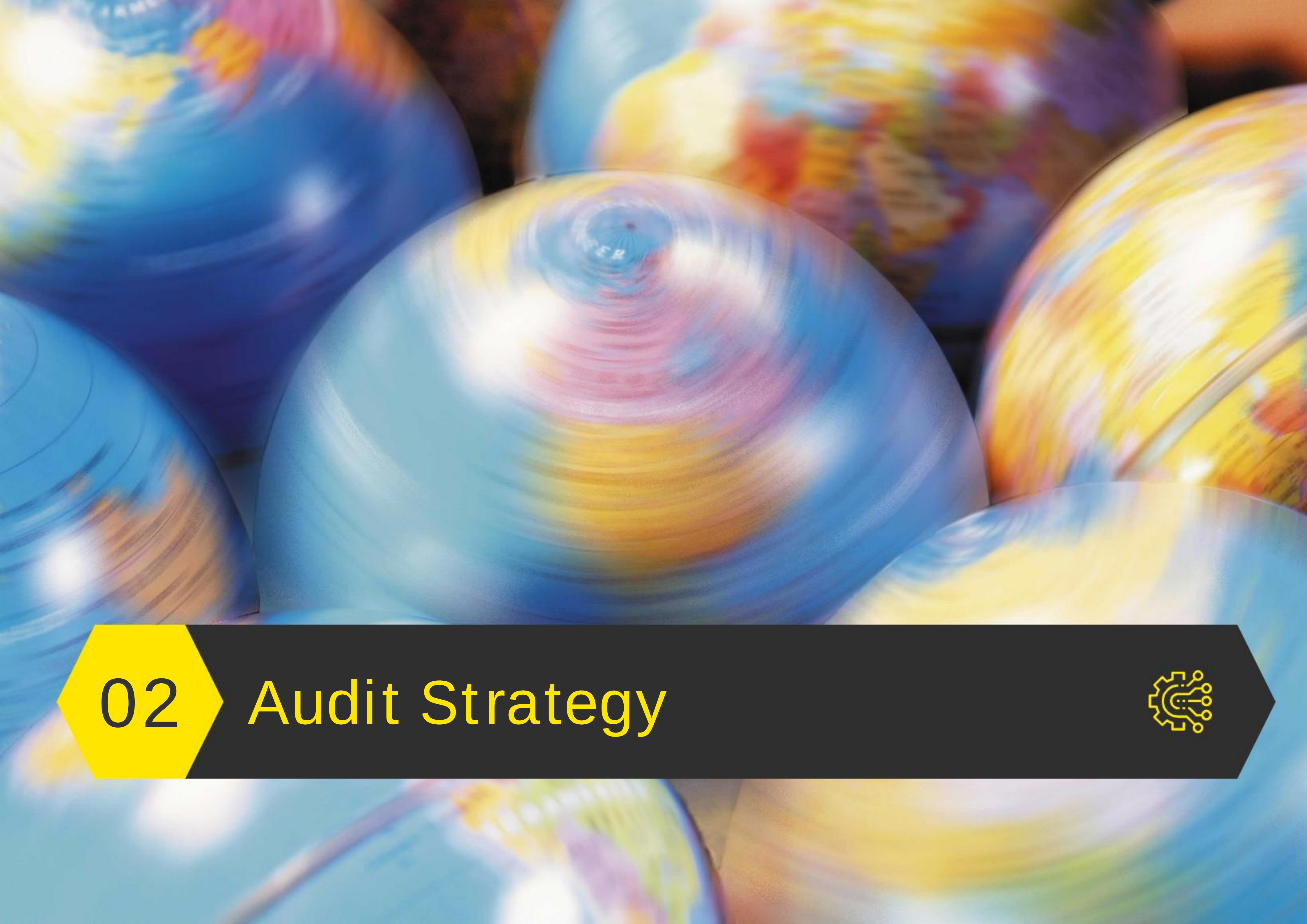
What will we do?

Additional Procedures in Response to our significant risk include:

- Obtain managements going concern assessment and review for any evidence of bias and consistency with the accounts;
- Review the financial modelling and forecasts prepared by the Council. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to the date of 12 months after the signing date of the accounts and opinion;
- Ensure that an appropriate going concern disclosure has been made within the financial statements;
- Review the Council's approach to identifying and disclosing events after the balance sheet date; and
- Consider the impact on our audit report and comply with EY consultation requirements.

Other areas of audit focus

What is the risk/area of focus?	What has changed?
IFRS16 – leases IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2002.21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued 'I IFRS 16 leases and early guide for practitioner's. This early guidance provider comprehensive coverage of the requirements of the forthcoming provisions, including; • The identification of leases • The recognition of right-to-use assets and liabilities and their subsequent measurement • Treatment of gains and losses • Derecognition and presentation and disclosure in the financial statements • The management of leases within the prudential framework The guidance also covers the transitional arrangements for moving to these new requirements, such as; • The recognition of right-of-use assets and liabilities for leases previously accounted for as operating leased by lessees. • The mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes)	The adoption of IFRS 16 by the Code as the basis for preparation of Local Authority statements has been deferred to 2021/22. The Council 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. We therefore no longer consider this to be an areas of audit focus, but will feedback to the Council any relevant observations from our discussions with the Council earlier in the year.



02 Audit Strategy

Changes in audit strategy

Audit Process overview

Additional audit procedures as a result of Covid-19:

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following changes in our audit strategy:

- Revised guidance for Annual Governance Statement – we will review these statements to check compliance with revised disclosure requirements.
- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from Council's systems. We will:
    - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and
    - Agree IPE to scanned document or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports.

The changes to audit risks and audit approach will increase the level of work we perform. This will impact the audit fee. We will agree changes to the audit fee with management and report back to the Audit Committee in our Audit Results Report.

Materiality

We have considered the materiality levels we reported to you in our initial Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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